



MEAT FOR WILD MEN BY CHARLES M. RUSSELL FROM THE COLLECTION OF C. B. SMITH See PAGE 4

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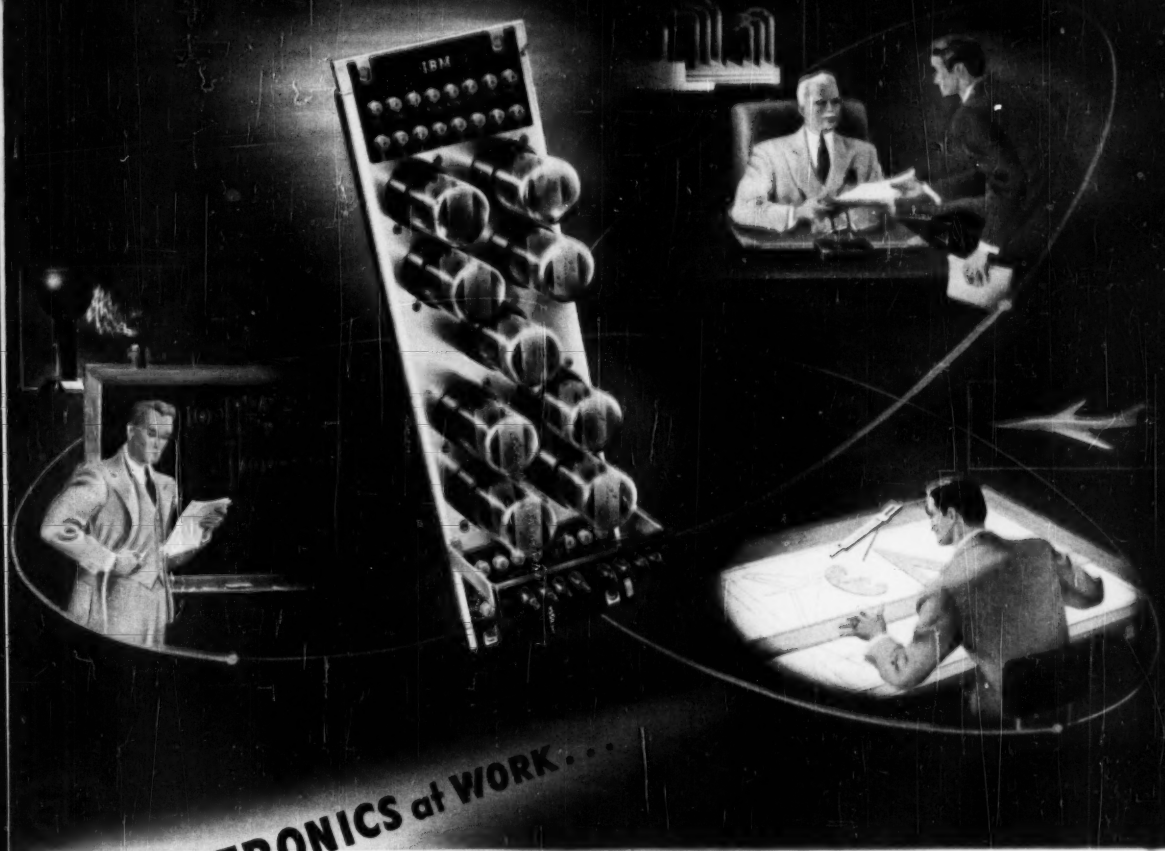
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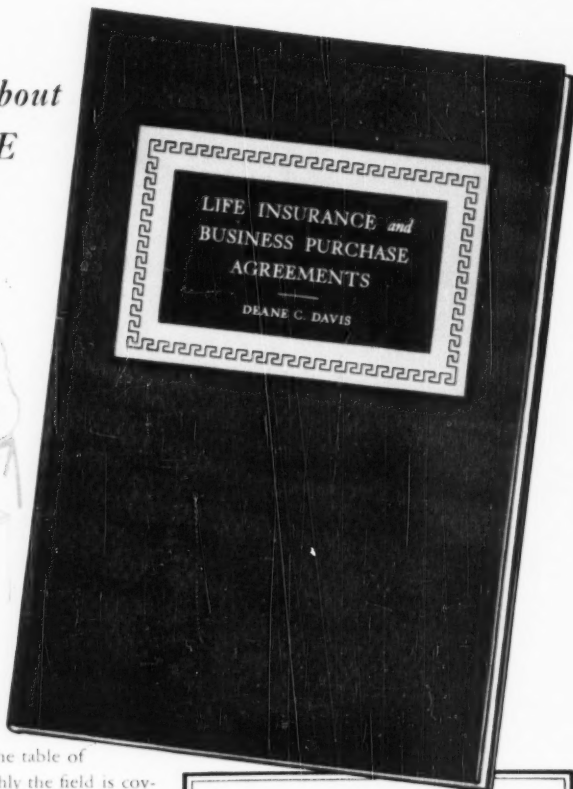
The author is Vice President and General Counsel of the National Life Insurance Company and a widely recognized authority on his chosen topic. Insistent demand for this work soon exhausted the first printing. This is the second edition, brought up to date with recent rulings and cases in point, as well as considerable matter not included in the original.

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MEAT FOR WILD MEN

IN this fine painting of a buffalo hunt Charles M. Russell caught the action at the moment when the herd begins to mill, or run in a circle, as the Indians move in for the kill.

It was the American Indian who first greeted Columbus, De Soto, Raleigh, and other early explorers who, in search of new lands and riches for their Kings and Queens, made voyages of discovery, and sometimes plunder, to the West. With colonization over a long span of years, with alternate periods of peace and war, the Indians were pushed ever westward. Crowded, exploited, and exposed to the vices of white men, these new problems confused and irritated them—a people whose greatest labor had been to plant and hunt that they might live. The Indian did not kill for the doubtful pleasure of seeing his quarry die—he killed for food and for clothing. Simple raw necessities of life which were often all too real during the long, bleak Winter months.

The problem of food increased with the shrinkage of the Indians' hunting ground until finally the terrible and bloody Indian wars were fought up and down and across the Western plains for almost 25 years until peace was restored in 1876.

Never again will the earth tremble with the thunder of a great herd of buffalo racing before the quick, sure arrows of the Indian. As slick polished planes streak through the skyways over the Western plains the thunder of their passing is muted in the reverie of the past.

CLARENCE SWITZER

THIS PRINT, "MEAT FOR WILD MEN," IS REPRODUCED THROUGH THE COURTESY OF MR. C. A. SMITH, CHAIRMAN OF THE BOARD, AMERICAN ARTISTS, AND IS ONE IN A SERIES OF SUBJECTS CURRENTLY APPEARING ON THE COVERS OF "DUN'S REVIEW." THE PRINTS HAVE SHOWN AND WILL CONTINUE TO SHOW SOME OF THE EARLY EVENTS, CIRCUMSTANCES, OR WAYS OF LIFE DURING THE NINETEENTH CENTURY WHICH SO HEAVILY CONTRIBUTED TO OUR PRESENT IMPORTANCE AS A PEOPLE AND A NATION.

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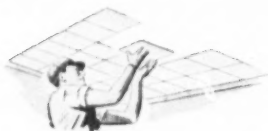
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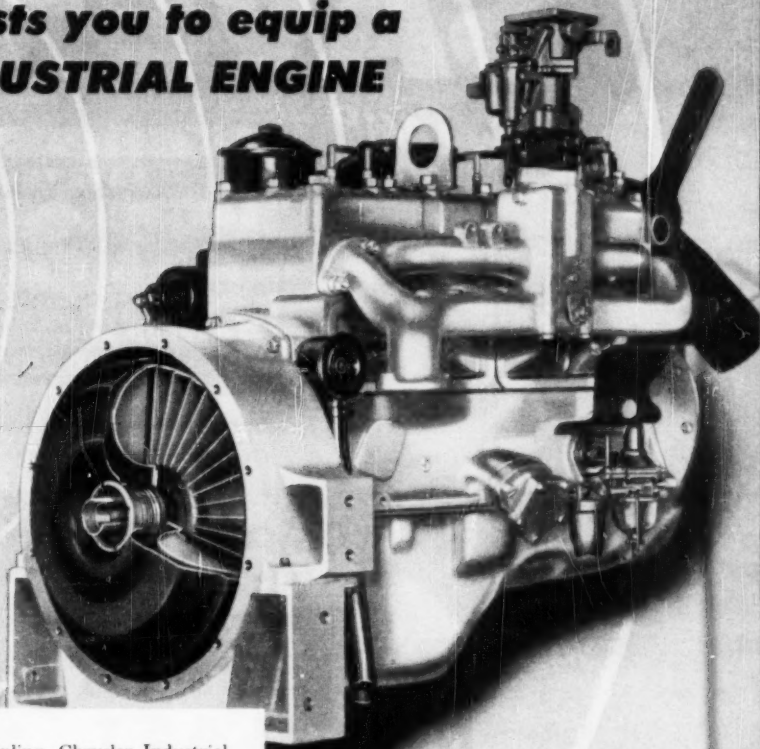
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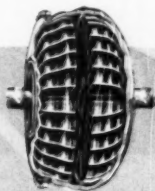
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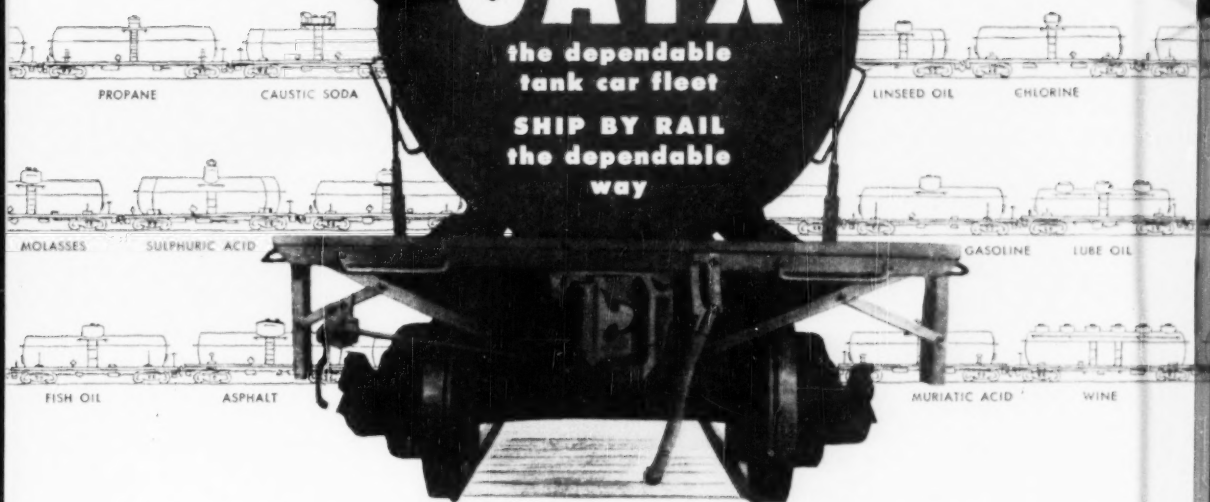
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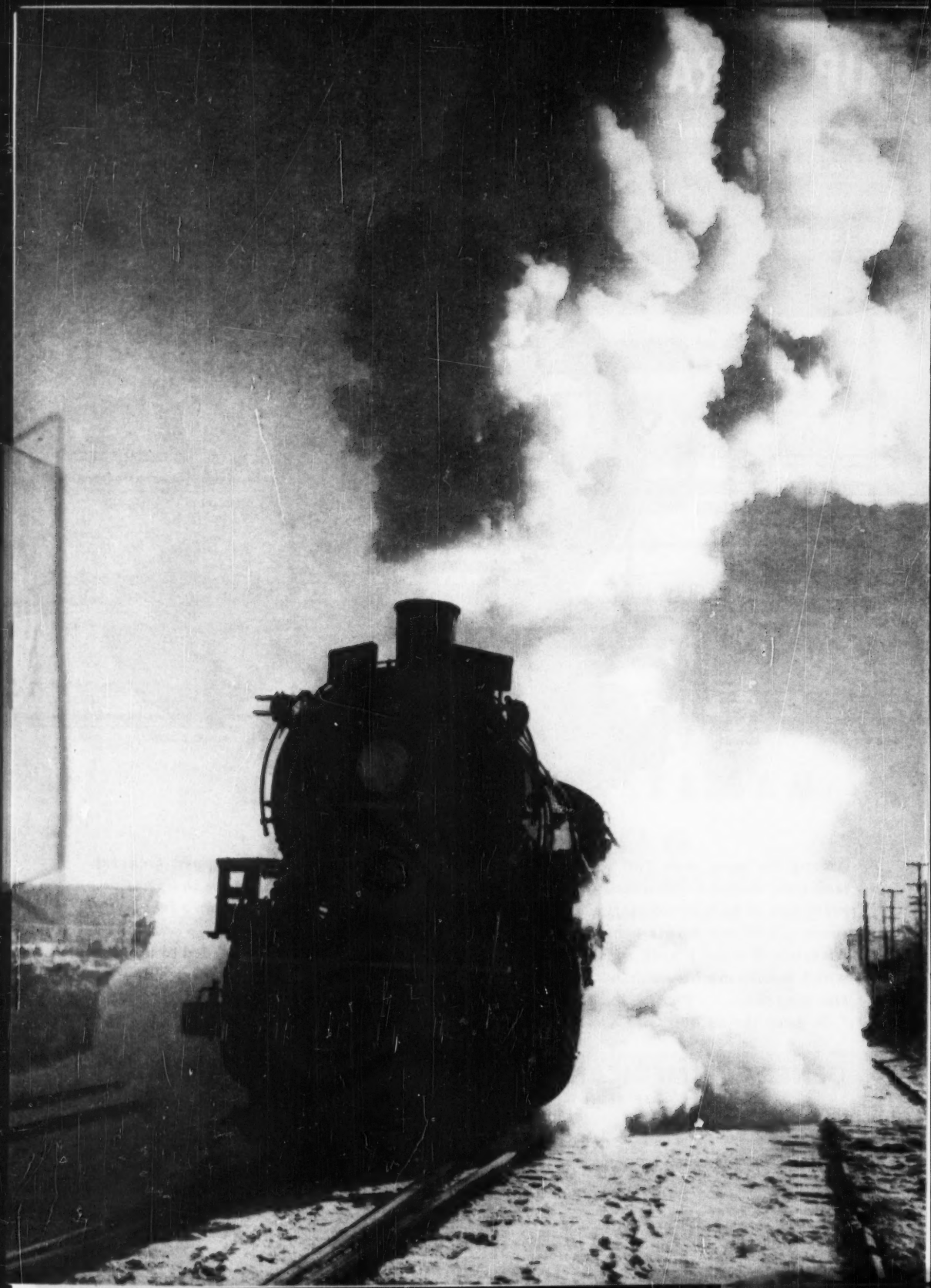
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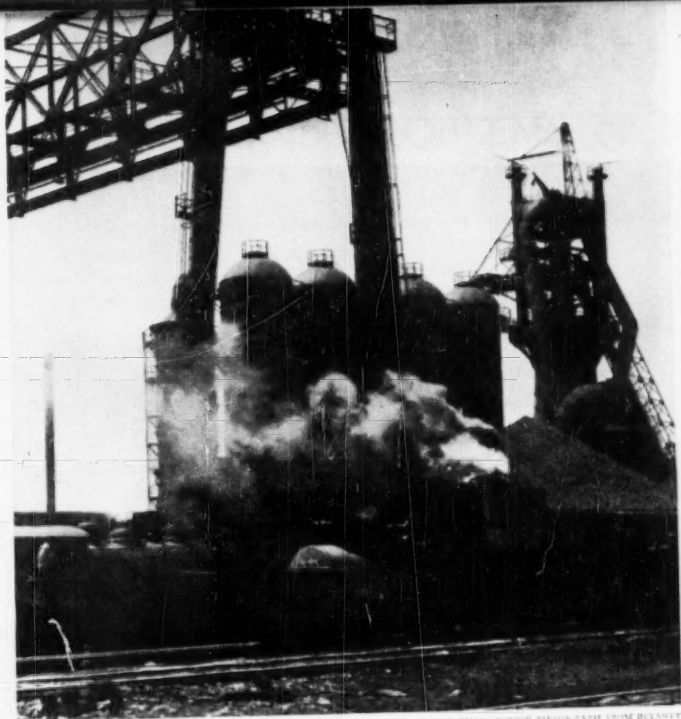
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STEEL MILL, YOUNGSTOWN, OHIO—GORDON PHOTOGRAPHIC FROM DEANETV

Is a drop expected in the short-range expenditures for industrial equipment? What expenditures are foreseen for industrial and residential construction? Do the Federal, State, and local governments face deficits? What's the outlook on agricultural surpluses? If food and textile prices decline from the current levels is this likely to depress the prices of other merchandise?

What Is America's SHORT-TERM BUSINESS OUTLOOK?

SUMNER H. SLICHTER

Lamont University Professor, Harvard University

DURING the last three years the country has gone through a catching-up boom, which lasted from the end of conversion to the third quarter of 1948, and an inventory readjustment which began in the fourth quarter of 1948 and lasted until the middle of 1949. There is great doubt as to whether the recovery from the inventory adjustment will be merely a very brief flash of several months or whether it will run for several quarters—until the middle of 1950 and perhaps longer.

This uncertainty arises because of the strong possibility that there will be some drop in expenditures for private investment in plant, equipment, and housing. Investment in industrial

equipment and housing in particular has been going on at a high rate for about two years. Hence some drop in these forms of spending would not be surprising. A substantial drop in expenditures on industrial equipment or housing could easily bring about a resumption of the decline in business.

My conclusions concerning the short-term business outlook may be summarized as follows:

1. Some drop in expenditures on industrial equipment is likely.
2. A drop in expenditures on industrial construction and residential building is less likely.
3. The cash expenditures of the Federal, State, and local governments

during the twelve months ending June 30, 1950, are likely to exceed their cash receipts by \$6 billion or more.

4. The drop in the rate of saving and the prospective deficit in the budgets of the Federal, State, and local governments will approximately offset any decline in expenditures on industrial equipment, industrial plant, and housing.

5. A small drop in the rate of saving, particularly corporate saving, is likely.

These several conclusions add up to the general conclusion that the course of business during the first half of 1950 will be upward. The Government policy of supporting the prices of agricultural commodities, however, is

building up dangerously large surpluses. The community will probably not tolerate an indefinite increase in the size of farm surpluses held from the market by Government funds or promises to purchase. Sooner or later the community will insist that the price of farm products be permitted to come much closer to reflecting the willingness of farmers to produce and the willingness of consumers to buy.

Threat to the Economy

When this happens, the economy may have to go through a difficult readjustment. I do not expect that the prospect of this adjustment will affect business during the first half of 1950. Nevertheless, if the weather next year is favorable, the problem of surpluses of agricultural commodities will be serious before the end of the year.

The balance of this article is devoted to explaining the conclusions already expressed. The outlook for the principal elements in the business situation is as follows:

1. *Investment in industrial equipment:* At the beginning of 1949, the country possessed about \$123.7 billion worth of industrial equipment. This figure represents the original expenditures for this equipment less depreciation, but expressed in dollars of 1949 purchasing power. Experience shows that this equipment needs to be replaced on the average at the rate of about 9 per cent a year. Consequently, expenditures of about \$11.2 billion a year on industrial equipment will be needed for normal replacement. The labor force of private industry is increasing at the rate of around 500,000 a year. The average amount of industrial equipment per non-government worker at the beginning of 1949 was \$2,279. To provide 500,000 workers with this much equipment will require an annual expenditure of about \$1.1 billion a year. During much of the last seventy years equipment per worker has been increasing at about 2 per cent a year though in recent years this increase has been somewhat less. To increase equipment per worker at the rate of 1.5 per cent a year would require additional expenditures of \$1.9 billion.

These estimates indicate that annual

CORPORATE PROFITS AND SAVINGS

*Before and after Inventory Valuation Adjustment
After Taxes; at Seasonally Adjusted Annual Rates*

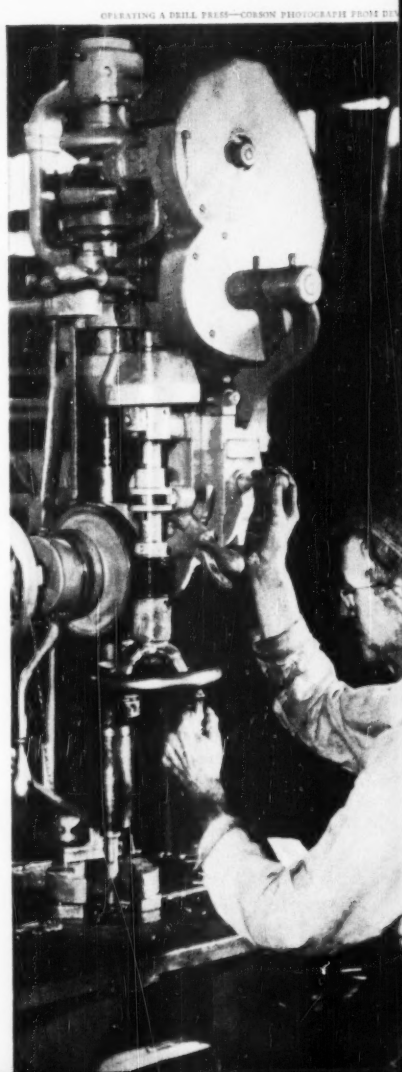
	Corporate Profits Before Inventory Adjustment	Inventory Ad- just- ment	Corporate Profits After Inventory Adjustment	Divi- dends	Corporate Savings Before Inven- tory Ad- justment	Corporate Savings After Inven- tory Ad- justment
1948						
First Quarter	\$20.2	-\$4.5	\$15.7	\$7.6	\$12.6	\$8.1
Second Quarter	21.3	- 2.0	19.3	7.7	13.6	11.6
Third Quarter	22.2	- 3.3	18.9	7.9	14.3	11.0
Fourth Quarter	20.9	+ 1.2	22.1	8.3	12.6	13.8
1949						
First Quarter	17.9	+ 2.3	20.2	8.4	9.5	11.8
Second Quarter	15.8	+ 4.7	20.5	8.4	7.4	12.1
Third Quarter	15.6	+ 3.6	19.2	8.3	7.3	10.9

A strong possibility exists that there will be some drop in expenditures for private investment in plant, equipment, and housing. Investment in industrial equipment and housing in particular has been taking place at a high rate for about two years.

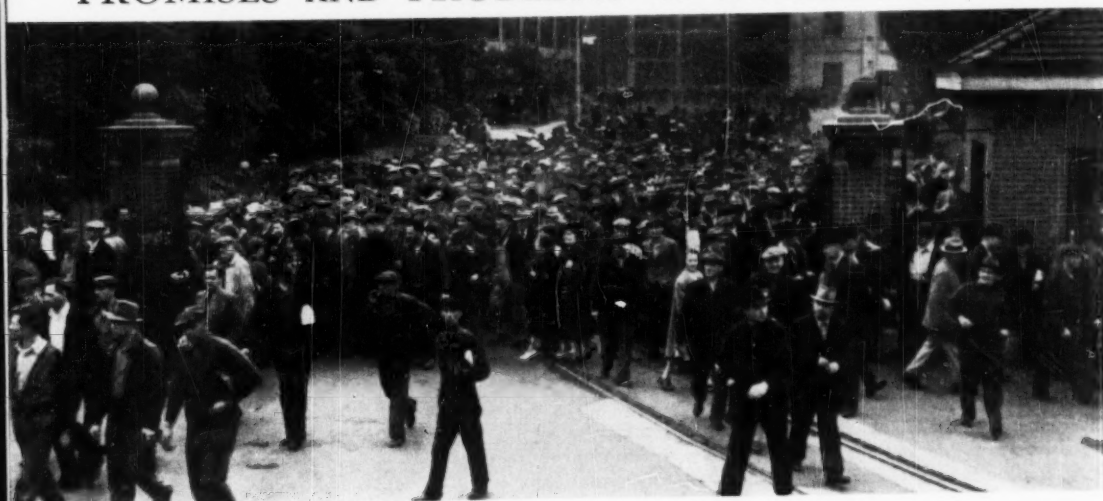
expenditures on producers' durable equipment of about \$14.2 billion a year are needed to replace the equipment of industry and to increase it at the usual rate. In 1948, expenditures on producers' durable equipment were \$20.7 billion; in the third quarter of 1949, they were at the annual rate of \$20.1 billion, or slightly more than one-third above normal. Expenditures on industrial equipment will probably not suddenly drop to the normal amount because there is still a large accumulation of demand. Nevertheless, some drop well below the rate of expenditures in 1948 is to be expected. Perhaps outlays on industrial equipment will run between \$16 billion and \$17 billion a year.

2. *Private, non-residential construction:* The real estate improvements of American industry at the beginning of 1949 represented an investment in 1949 dollars of about \$160.6 billion. The replacement and obsolescence rate is about 2.9 per cent a year. Hence expenditures of about \$4.7 billion a year are needed to provide for the replacement of industrial real estate improvements. The volume of real estate improvements per non-government worker at the beginning of 1949 was

(Continued on page 42)



PROMISES AND PROBLEMS OF SOCIAL SECURITY



DEVANEY PHOTOGRAPH

II. *Company Pension Plans*

MARION B. FOLSOM

Treasurer, Eastman Kodak Company

It was pointed out in the first article of this series that the objective of the Federal Old Age and Survivors Insurance Plan is to provide a basic layer of economic protection for the aged by means of equal contributions from the employer and the worker. The plan, however, is defective in that benefits are too low in relation to present living costs.

The bill passed in October by the House of Representatives, if enacted into law would go a long way toward correcting this defect. The benefits which a single man aged 65 would receive under the present plan and under the House bill, at different wage levels and periods of service are tabulated on page 14.

The House bill permits the average monthly wage to be computed on the basis of wages after 1949. For those retiring during the next few years, the percentage of wages at the time of re-

tirement will be about the same as shown in the table. For those who retire some years hence, the final pay will probably be higher than the average pay and hence the percentage of the final pay will be lower.

These benefits, with supplementary payments for the wife, would seem to be high enough to prevent dependency and adequate for a Government plan. They, however, would not enable a person, especially the higher paid industrial worker, to maintain his previous standard of living unless he had accumulated substantial savings. Aged persons do not need so large an income after retirement to maintain their standard of living—their children are grown, homes are generally paid for, and other expenses can be reduced. But a decline of much over 50 per cent in income would in many cases necessitate drastic readjustment.

Prior to the enactment of the Social

TO WHAT EXTENT SHOULD EMPLOYERS BE RESPONSIBLE FOR THE POST-RETIREMENT WELFARE OF THEIR WORKERS? HOW CAN COMPANY PENSION PLANS BEST SERVE BOTH WORKERS AND EMPLOYERS? THE FUNCTION AND SCOPE OF PRIVATE COMPANY PENSION PLANS IS AN IMPORTANT PART OF THIS THOROUGH-GOING TREATMENT OF SOCIAL SECURITY APPEARING IN SEVERAL ARTICLES.

Security Law in 1935 many companies had established pension plans, but the real growth of plans came after 1935. Company management found that the benefits under the Social Security program would not provide enough to prevent a sharp drop in the standard of living of their workers upon retire-

Social Security Benefits for a Single Man Aged 65

UNDER THE PRESENT PLAN AND UNDER THE BILL HR-6000

AVERAGE Monthly Wage	AFTER 12 YEARS' Present Plan	COVERAGE HR-6000	AFTER 20 YEARS' Present Plan	COVERAGE HR-6000
\$150	\$14	\$58	\$36	\$60
200	39	64	42	66
250	45	69	48	72
300	45	74	48	77

A married man with a wife over 65 would receive an additional benefit of 50 per cent under both plans.

ment. The high wartime taxes provided a further impetus as companies were able to launch plans with substantial savings in the initial cost. It is estimated that there are now over 12,000 private company plans in operation covering four or five million persons. Less than 1,000 of these plans were established before 1940 and about 9,000 between 1942 and 1947. Over 1,000 companies have submitted plans to the authorities for approval during the past year.

Private Pension Plans

Why do companies adopt pension plans to supplement the Government program? After a company has been in business for a number of years, certain employees will begin to reach a point where, because of old age, they are no longer productive enough to earn the wages being paid them. The employer has three choices: one, he can keep the worker on the payroll as long as he lives; two, he can release him without any retirement provision; three, he can retire him on a pension.

If the first choice is taken, the efficiency of the organization suffers and the actual pension cost is buried among other costs of the business. If the second choice is made, the employer's standing in the community is impaired, the morale of his organization is affected, and sooner or later such a policy would affect his ability to hire good people. Modern management will not release a long-service worker if it is known that he will have to take too sharp a drop in his living standard. The third choice is the one which has been taken by thousands of companies. It has distinct advantages over the first two.

A pension plan does entail a substantial direct cost but it is not hidden as would be the case if the company had no plan. There are, however, savings

from an adequate pension plan. The organization is kept on a more efficient basis because those who are past their period of usefulness can be replaced by younger and more efficient workers. If a supervisor is retired, promotions can often be made affecting several individuals. The morale of the organization is thereby improved.

An adequate plan not only brings a sense of security to the older worker but has a good effect on the younger workers as well. There is a better feeling, both among the employees and in the community, toward a company which looks after its older workers. As the result of these factors, the labor turnover will be lower.

These savings cannot be measured, but it is the feeling of many who have had years of experience with pension plans that they will go a long way toward offsetting the cost. In any

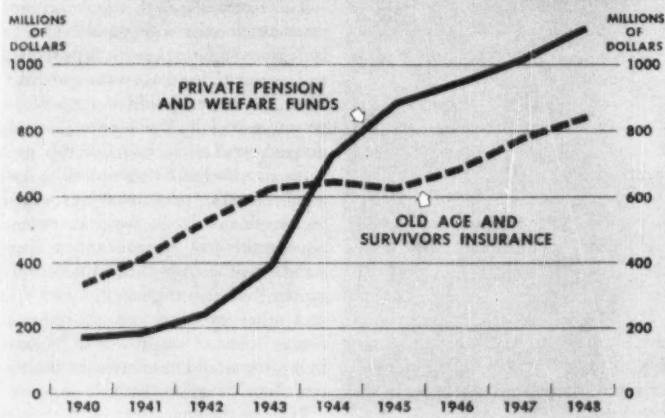
event, with the increase in the number of companies adopting pension plans, it is becoming more difficult for companies to attract and hold desirable workers without a plan.

If benefits under the Old Age and Survivors Insurance Plan are increased along the lines of the House bill, many companies in smaller cities and towns, where wages and living costs are lower, might find it necessary to add only small additional benefits in the way of a supplementary plan. However, in the larger industrial cities the benefits paid under the Government plan will not be high enough and a supplementary plan will be necessary.

Some may urge that the benefits under the Government plan should be high enough to make it unnecessary for even the companies in industrial centers to have a supplementary plan. This, however, gets away from the basic principle underlying the Government plan, which is to provide only a minimum protection to prevent dependency. That should be the extent of the Government's obligation. Once the Government attempts to provide income above this level, we would be establishing a principle which could lead to a guaranteed income for all of the other groups in the community and, eventually, to a planned economy.

Private pension plans increased considerably during the war years as many profit-making corporations found the necessary contributions almost costless in view of the high rates of the excess profits tax. Employer contributions to private pension and welfare funds increased nearly 550 per cent between 1940 and 1948. Figures from U. S. Department of Commerce.

EMPLOYER CONTRIBUTIONS TO PENSION FUNDS





CORNING PHOTOGRAPH FROM DEWANEY

ABOVE: "With the contributory old age insurance plan providing basic economic protection to prevent dependency and with the company plan providing supplementary benefits, the worker can be assured of . . . comfort in his old age [while retaining] his strong incentive to produce."

BELOW: "Aged persons do not need so large an income after retirement to maintain their standard of living—their children are grown, homes are paid for, and other expenses can be reduced. But a decline of much over 30 per cent in income [often compels] drastic readjustment."

CORNING PHOTOGRAPH FROM DEWANEY



There are many complex problems in setting up a sound pension plan and they must be carefully studied. A pension plan covers a long period of time—in the case of a 25-year old worker now on the force, funds would be accumulated for 40 years and he would have a normal expectancy of fifteen years to draw benefits. Mistakes in estimates in the early years may be very serious as the plan develops in the future.

If a company at its beginning were to set aside a sum for each dollar of payroll in order to provide pensions, only a small amount would be necessary; the interest accumulation would take care of a good share of the cost. Few companies, however, begin to think of pensions until some of their employees approach retirement age—about 25 or 30 years after the company started operations. The first step is generally to retire the older worker on an informal basis, the amount depending upon need. Such a plan will soon prove unsatisfactory and is not fair to those who have been thrifty. It is thus found necessary to set up a definite plan to pay pensions to all retired workers. The payments to these retired workers then begin to increase quite rapidly.

The reasons for the rapid increase are obvious. Each year additional persons are put on the pension roll and if the same number were added each year, the cost would not become stabilized until the number of deaths would equal those newly added. An increasing number, however, reach retirement age each year because the people who are now reaching retirement age are those who were employed 25 or 30 years ago and at that time it is likely the company was growing rapidly. As the result of these two factors, the cost will continue to rise in the future and will not become stabilized even as a percentage of the payroll for many years. If provision is not made to accumulate funds to meet future costs—that is, if the plan is not "funded"—the annual pension expenditures may reach a very large percentage of annual payroll.

The conservative policy is to "fund" a plan. Under a funded plan a careful estimate is made of the liability which

(Continued on page 30)



The Related Movements of PRICES AND FAILURES

I. MEN, MONEY, AND CIRCUMSTANCE

ROY A. FOULKE

Vice-President, DUN & BRADSTREET, INC.

THE MAGIC TOUCH OF MIDAS CAUSED TROUBLES THAT WERE INSIGNIFICANT WHEN COMPARED WITH THOSE OF A NATION THAT WOULD TURN PAPER INTO GOLD. WHAT ECONOMIC PATTERNS HAVE MARKED THE FIVE PERIODS OF "PRINTING PRESS" MONEY? HOW THESE PATTERNS AFFECT BUSINESS WILL BE DISCUSSED FURTHER IN A CONCLUDING ARTICLE.

AT DAWN on the morning of April 19, 1775, eight hundred British soldiers who had marched out of Boston the night before encountered sixty minute-men drawn up in line on the common at Lexington. The minute-men refused to disperse. Suddenly a shot was fired, then a volley; eight minute-men were killed and ten were wounded. The Revolutionary War was under way.

Since that time we have had four periods of price inflation in our history, and we are now in our fifth. Each of these five periods of inflation has been the result of, and has followed, a war: the Revolutionary War, the War of

1812, the Civil War, World War I, and now World War II.

The cost of each of these struggles was paid largely by deficit financing, that is, by funds which were borrowed by the Government in one way or another. In that process a very substantial increase in purchasing media was forced into circulation. The process was elementary during the Revolutionary War; since then the process has become somewhat more complicated, but the results have been the same.

When the British red-coats clashed with the minute-men at Lexington and then marched on to Concord, the colonies had no supplies of arms, no equip-



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The broad and thinly populated area of the United States was carefully charted by Abel Buell in this first map engraved in America following the Treaty of Peace of 1783. Despite the lack of rapid communication, distrust of paper money spread with amazing speed throughout the country during the years of the Revolutionary War. At the start of the war the States had no common currency, either paper or metallic; there were no banks in existence that could extend credit; and the existing supply of foreign coins in circulation was nominal. The only previous experience which any of the colonies had had in raising funds to meet an unusual financial emergency was in the issuance of negotiable promissory notes in the form of paper money. That experience was as complete as it was disastrous. Yet, once again they resorted to printed currency in the face of hardships associated with earlier paper money experimentation. As is so often the case in history, the decision was simply and solely a matter of expediency.

ment, no ammunition, or the money with which to purchase them, or to pay colonial soldiers. Under these circumstances, the task which immediately presented itself was to provide the necessary financial resources, the proverbial sinews of war.

There were only three ways by which to raise the necessary funds: the issuance of paper currency, increased taxation, and borrowing either at home or abroad. The Continental Congress resorted to all three of these methods, but the issuance of paper currency by the Congress and by the various States became the chief source!

In June 1775, almost with the beginning of hostilities, Congress authorized an issue of paper money amounting to \$2 million. As is so often the case in history, the decision was simply and solely a matter of expediency. This currency had no security behind it except the very questionable pledge of faith of twelve of the colonies. Georgia had not linked her fortune, up to this time, with the other colonies.

By the end of 1776, \$25 million of paper currency had been put into circulation and depreciation amounted to 30 per cent. By the end of 1777, \$38 million of "Continental" paper money had been issued and the depreciation had risen to approximately 70 per cent.

Continental paper currency of \$160 million had been issued prior to September 3, 1779, and by that time the States had provided no more than \$3 million, or slightly less than 2 per cent, in taxes for redemption. Moreover, the States had issued their own paper money. "Continental" and State currencies now circulated side by side, each affecting the value of the other.

Money Without Credit

By the latter part of 1779, the entire currency system had broken down hopelessly. Money without credit is no money. This the delegates to the Continental Congress learned when paper currency, became almost worthless.

On March 18, 1780, the Continental Congress enacted legislation to the effect that the States should collect taxes and use the money to redeem the outstanding paper currency at the rate of 40 paper dollars for one silver dollar. Eventually \$120 million of "Continental" paper currency was retired, leaving \$71 million in circulation.

After 1781, the remaining bills depreciated to the vanishing point, but remained a medium for speculators who hoped that in the not too far distant future they would be redeemed on some basis by Congress. "Not worth a Continental" has remained to this

day a term for complete worthlessness.

It is no wonder that prices skyrocketed. Between 1774 and 1779 wholesale prices, it has been carefully estimated, rose 197 per cent. This is the sharpest rise to have taken place in any of the five periods of spectacular price inflation in our history, and it was also the most disastrous from the viewpoint of those who had accumulated any reasonable amount of currency over these years, or who had obligations due them which were paid in the depreciated currency.

In the 37 years which transpired from the issuance of the first Continental currency to the opening of hostilities in the War of 1812, important developments had taken place in the mechanics of our economic life. There had been no banks in the modern sense of the word in the colonial days. Such functions of banking as were carried on were handled by wealthy merchants. They granted loans and credit to friends for travel and for general business accommodation.

In 1781 the Bank of North America was organized by Robert Morris in Philadelphia. Here was the first of a new type of financial institution. In 1791 the First Bank of the United States was incorporated by Congress with an authorized capital of \$10 million to

operate for a fixed period of 20 years.

During those 20 years the bank, in addition to acting as the fiscal agent of the Government and providing banking facilities for the everyday commercial transactions of business men, also provided a supply of paper money with which to carry on commerce as a supplement to the existing moderate supply of metallic gold and silver currency. Its paper money went into circulation throughout the country at par.

For an understanding of banking operations during this period of our history, the most important operating technique which must be kept in mind is that bank credit generally was extended in the form of bank notes. That is, when an individual obtained credit from a bank, as a general practise he did not receive a credit deposit upon which he could draw checks. He was given bank notes—actual paper currency which he carried away from the bank. The expansion in bank loans therefore meant the issuance of more and more bank notes.

During the five periods when the supply of inconvertible money was sharply expanded, confidence in the currency declined and prices rose. The restoration of confidence was a painful procedure in four of these periods; it was marked by falling prices, numerous business failures, and general economic hardship. We are now in the fifth period of price inflation.

In 1811, the last year that the First Bank of the United States was in existence, it has been estimated that there were in existence in the neighborhood of 89 commercial banks including the First Bank of the United States.

Money Supply Curtailed

The approximately 89 commercial banks had outstanding circulating notes, that is paper currency, of \$28 million and specie of \$15 million or a total of notes and specie of \$43 million. Of this aggregate amount, approximately \$12 million was retired by the liquidation of the First Bank of the United States leaving about \$31 million in paper currency and specie.

In this situation, the field of banking offered unusual opportunities for profitable investments. During the next five years the number of banks increased more than three-fold and many, as there were no restrictions on their organization, started business with little, and in some cases, virtually no cash capital.

In August 1814, a fleet of British fighting vessels sailed up Chesapeake Bay to create a diversion which might make it easier for General Prevost to invade upper New York State from Canada. Forty-five hundred men landed, marched to Washington, and burned many public buildings including the Capitol and the White House.

Within one month all banks south of New England had suspended specie payment. Until that time anyone with \$10, \$100, or \$1,000 in paper currency could go to the bank which had issued the currency, turn it in, and receive in exchange gold coin of equivalent value. As soon as the banks south of New England went off the specie base, the exchange of notes for specie no longer could be made and the currency of those banks immediately fell in value.

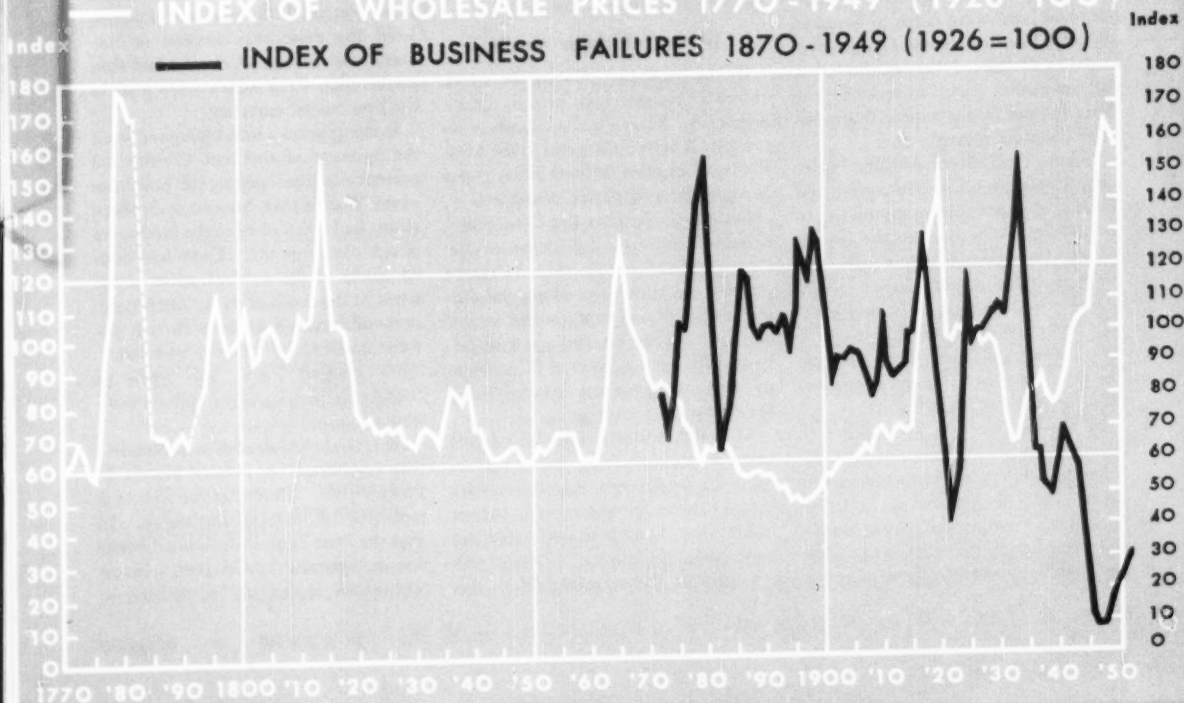
Relieved of all responsibility of redeeming their currency in specie on demand, the banks located outside of New England now increased their issues of paper money, a step encouraged by the action of the Federal Government in accepting bank notes in payment of public dues.

The country again was on a paper
(Continued on page 52)

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INDEX OF WHOLESALE PRICES 1770-1949 (1926=100)

INDEX OF BUSINESS FAILURES 1870-1949 (1926=100)





THING PHOTOGRAPH

How Retailers CAN ATTRACT AND HOLD CUSTOMERS

N. H. COMISH

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MOST consumers select a particular store in each retail classification with which to do business more or less permanently. Before doing so, consumers shop around from store to store considering a number and variety of factors which help them decide.

This store selection process is going on continuously in nearly all towns and cities in the United States and it is true largely because of three practises. First, a great many people move from place to place within this country and even within given cities.

Second, when people get married, they often select anew particular retail establishments to which they give their trade. Third, some people after trading with given stores for a considerable time become offended for one or more reasons and seek other retail outlets.

Retailers who know why people prefer to trade at one store instead of another can, by emphasizing the right factors, attract and hold more customers. It was with a view to discovering the reasons which lead customers to prefer trading at one store rather than another that the author and thirty-five of his research students made a patronage survey in Oregon in 1949.

Data were gathered from store customers directly by personal interviews through a prepared questionnaire. Neither the names of customers nor the names of individual stores were requested. Representative customers in different classes of stores throughout Oregon were interviewed.

For twenty-seven retail classifications, 296,752 answers of customers were obtained. For department stores,

25,939 answers were received, and for women's wear shops 19,873.

The chart on page 20 indicates the relative importance of the reasons stated by customers for preferring to trade at one store instead of another when all types of retail institutions are combined. It also gives the relative importance of the reasons stated by customers for preferring to trade at one department store rather than another and one women's wear shop instead of another. The relative significance of the reasons given for trading at particular stores is based upon the frequency of their occurrence.

If all of the reasons relating to efficient salesmanship be considered together, then the fine art of salesmanship is by far the most significant factor in store preference.

Efficient salespeople ranks on the percentage basis at 34.4 per cent in the case of all stores taken together. For the department store grouping it is 36.2 per cent and for women's wear stores it is 30.5 per cent. The high ranks are derived from adding the percentages in each store category for prompt, pleasant salespeople; courteous, businesslike salespeople; salespeople know merchandise; considerate salespeople; dependable salespeople; salespeople know the uses of goods; and no substitutions.

High Quality and Wide Choice

For all stores combined, high quality goods ranks second with a percentage of 13.1. It is second also in the case of women's wear shops, being rated at 14.1 per cent. But it is third in the instance of department stores, being rated at 10.9 per cent. A wide choice of merchandise is third in the all types store classification, second in the case of the department store group and third in the women's wear category. On the percentage scale this patronage reason ranks at 9.1, 11.8, and 8.2 per cent respectively. Convenient location is fourth in importance for all three classifications.

Next in relative significance among the reasons for the all stores type category is prompt services. It is up to 5.6 per cent on the percentage scale. It is slightly lower for the department and women's wear classifications, it being for these groups 4.7 and 4.8 per cent respectively. As a reason, low prices stands at 5.2, 5.6, and 3.6 per cent in order for the three retail classifications on the chart. Dependable store stands at 5.0 per cent on the scale for all sorts of stores combined, at 5.4 per cent for department stores, and at 4.5 per cent for women's wear shops.

Nationally advertised goods rank at 4.4 per cent for the first store grouping and at 5.0 per cent for the second and third categories.

The other reasons relating to store preference are generally less significant than the foregoing ones. These minor reasons are: Attractiveness of store, good store layout, friendships in store, fair adjustments, and liberal credit terms.

The various answers which were included in "efficient salespeople" rate high on the chart if treated separately.

Prompt and pleasant salespeople would rank third in the all types of stores and department stores classifications, second in the instance of women's wear stores.

Courteous, businesslike salespeople would tie with salespeople who know merchandise in the all types of stores grouping their percentage ranks being 6.1 per cent; for department stores they would stand at 5.6 and 4.7 per cent; and for women's wear shops at 7.0 and 6.3 per cent respectively.

Considerate salespeople would rate 4.2 per cent in the first two classifications, and 5.1 per cent in women's wear stores. Dependable salespeople would rank among the reasons at 4.2, 3.7, and 4.8 per cent respectively in the three store categories.

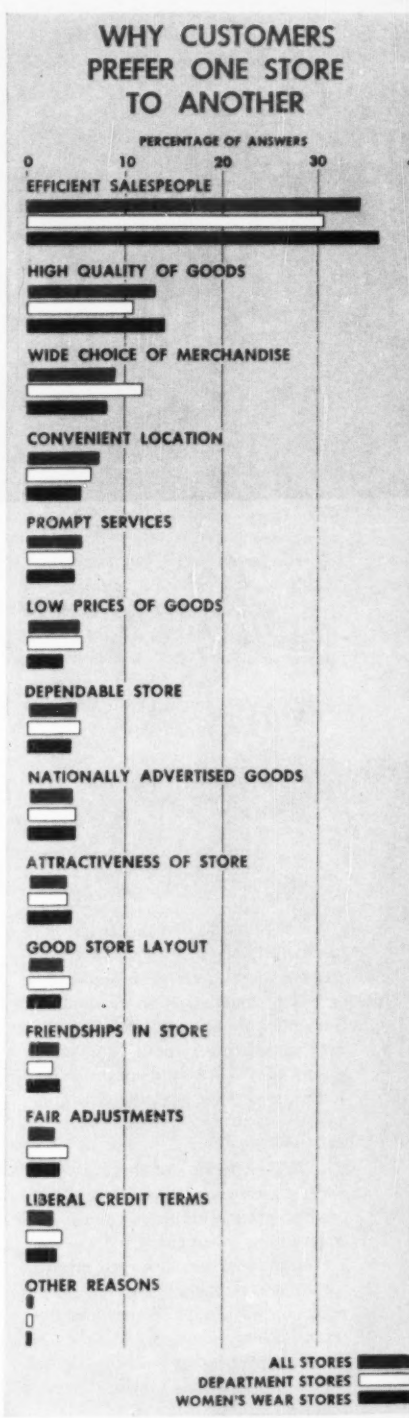
By improving their personnel and merchandising policies and practises along the lines suggested by the reasons for store preference, many retailers could attract and hold more customers. Other studies on the inefficiency of salespeople indicate a great need for more and better training in store salesmanship. The store preference study should furnish an over-powering incentive on the part of many merchants to better their salesmanship training.

The relative importance of high quality goods, a wide choice of merchandise, lower prices, and nationally advertised goods as reasons for store preference, should also persuade many retailers to introduce the model stock buying plan so that they may keep the more wanted merchandise.

The significance of prompt store services, the dependability of the store, the attractiveness of the store, retail layout, and fair adjustments, as reasons for store preference, might give other merchants the cue to change some of their policies and practises.

Finally, the relatively high significance of convenient store location, as a reason for customers preferring to trade at one store instead of another, might stimulate a desire to change retail locations of some shopkeepers.

Seven answers, all relating to efficient salesmanship, are grouped under the heading of efficient salespeople. Included are prompt, pleasant salespeople, 8.0 per cent; salespeople knowing merchandise and courteous, businesslike salespeople, both 6.1 per cent; considerate salespeople and dependable salespeople, both 4.2 per cent; salespeople knowing the use of goods, 3.8 per cent; and no substitutions, 2.0 per cent.



THE TREND OF BUSINESS

FREIGHT YARDS AT SAVANNAH, GEORGIA—LARGE PHOTOGRAPH FROM EVANST

There was a further moderate rise in almost all measures of business activity during late November and the first half of December. Industrial production by mid-December had returned to the immediate pre-strike level. Retail trade volume increased substantially as Christmas drew near. Employment remained at a high level.

THE statistics of production and distribution, as well as the "sentiment" of business men generally, continued to reflect during December the optimism engendered by the strike settlements in early November.

The output of both coal and steel rose rapidly with the end of the labor disputes. And although the coal miners were put on a three-day week in December, enough coal was available to support the high level to which industrial operations had risen.

Steel output by mid-December was at the highest level since May 1949. Mill operations were scheduled at close to 92 per cent of capacity. (Theoretical capacity for the year 1949 is 96,120,930 net tons, or about 1.8 million net tons a week. At 92 per cent of capacity mills produced approximately 1.7 million net tons per week.)

Despite the rapid recovery in steel

production, many manufacturers who use steel in their products were forced to curtail output until supply lines filled up again. These dislocations in certain instances were expected to continue for several months. Order backlogs remained heavy in many of these industries.

The declines in automobile production which took place during November were due to a combination of factors—shortages of steel and steel parts, inventory periods, and model changeovers. Several producers recalled workers at the beginning of December some weeks earlier than had been expected. It was estimated that total automobile production, which had reached 5,896,930 at the end of November, would exceed 6 million units for the full year, an all time record.

The position of many nondurable goods industries as 1949 drew to a close

indicated that the rise in general industrial activity was not due solely to "catching up" operations among the steel producers and steel users. Most textile mills, for example, had heavy order backlogs in December with new orders largely for delivery in the second quarter of 1950.

Building activity continued at a very high level during November. The value of new construction put in place during the month totalled more than \$1.7 billion, 6 per cent above the November 1948 level. The value of construction put in place during the first eleven months of the year amounted to \$17.7 billion, 2 per cent above the similar period in 1948. This, together with the fact that current building operations are noticeably above a year ago, indicated that 1949 would be a record year in terms of dollars spent for new construction.

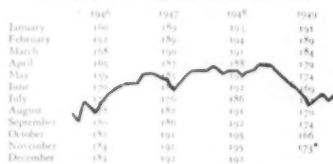
Signposts of Activity

WEEKLY AVERAGES 1939	1948	SELECTED BUSINESS INDICATORS	LATEST WEEK	PREVIOUS WEEK	YEAR AGO	WEEK ENDED
102	170	Steel Ingot Production Ten Thousand Tons	174	173	160	Dec. 24
76	111	Bituminous Coal Mined Hundred Thousand Tons	87	92	114	Dec. 17
69	101	Automobile Production Thousand Automobiles	74	50	117	Dec. 17
31	53	Electric Power Output Ten Million K.W. Hours	60	59	58	Dec. 17
65	82	Freight Carloadings Ten Thousand Cars	64	67	75	Dec. 17
109	384	Department Store Sales Index Number	542	449	564	Dec. 10
77	165	Wholesale Prices Index Number	151	151	163	Dec. 13
74	211	Bank Debits Hundred Million Dollars	229	222	250	Dec. 14
76	285	Money in Circulation Hundred Million Dollars	278	277	286	Dec. 21
219	101	Business Failures Number of Failures	161	191	96	Dec. 15

Sources: Amer. Iron & Steel Inst.; U. S. Bureau of Mines; Automotive News; Edison Electric Inst.; Amer. Assoc. of Railroads; Federal Reserve Board; U. S. Bureau of Labor Statistics; DUN & BRADSTREET, INC.

Industrial Production

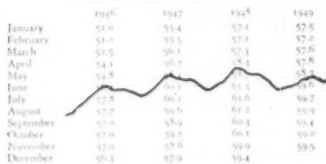
Seasonally Adjusted Index, 1937=100 (Excludes Federal Reserve Bank)



* Approximation; figure from quoted source not available.

Employment

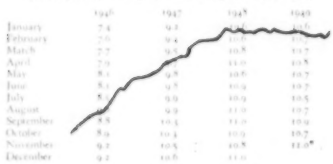
Millions of Persons, U. S. Bureau of the Census



Includes all civilian workers.

Retail Sales

Billions of Dollars, seasonally adjusted, U. S. Department of Commerce



* Approximation; figure from quoted source not available.

Wholesale Commodity Prices

Index, 1914=100, U. S. Bureau of Labor Statistics



* Approximation; figure from quoted source not available.

Consumers' Price Index

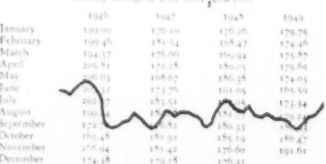
Index, 1913=100 (Excludes U. S. Bureau of Labor Statistics)



* Approximation; figure from quoted source not available.

Industrial Stock Prices

Monthly Average of Daily Index, Dow Jones



Based on closing prices of 30 industrial stocks.

Employment A rise of one-half million in the number of persons regularly employed accompanied the increase in general business activity in November. There was a drop in unemployment, but it was smaller than the increase in employment because of a rise in the number of seasonal workers looking for jobs.

Total employment in November was 59.5 million persons; a 5 per cent decrease brought the unemployment figure to 3.4 million. The U. S. Bureau of the Census, which compiles these figures, counts all persons with regular jobs as employed, even if they are not working. Workers on strike, therefore, are not numbered among the unemployed.

The nonfarm employment rose 350,000 in November to 51.6 million persons. Farm employment increased contrasessionally to 7.9 million from 7.7 million in the previous month. The increase in farm workers was due primarily to weather favorable to harvesting which had been held up in October by heavy rains.

Prices and Wages Most wholesale commodity price averages during November remained within 2 to 3 per cent of the previous month's level. Although prices of a few individual commodities, coffee in particular, were subject to noticeable changes during the period, the general price level remained steady.

The wholesale commodity price index of the U. S. Bureau of Labor Statistics declined fractionally from the October figure to 151.5 per cent of the 1926 average. Decreases in prices of farm products, foods, textiles, and fuels accounted for the November drop in the combined average. Prices of 88 building materials and chemicals increased slightly during the month.

The DUN & BRADSTREET Wholesale Food Price Index, which stood at \$5.79 at the beginning of November, was at \$5.76 on December 6 and \$5.72 on December 27.

Factory wages dropped in October

Compass Points

for the first time since April 1949. The average factory worker's weekly pay envelope contained \$55.26 in mid-October, about 50 cents less than in the middle of the previous month. The length of the work week in October was 39.7 hours, about the same as in September. Hourly earnings of production workers fell 1.5 cents to \$1.39.

Total consumer income dropped to an annual rate of \$208.4 billion in October from \$210.5 billion in the previous month and \$216.3 billion in October a year ago.

Finance Total stock sales on the New York Stock Exchange in November were down slightly from October, but trading exceeded one million shares in every full day session.

Security prices dipped slightly in the first half of the month then rose during the last half of November. The Dow-Jones average of 30 industrials, which stood at 191.23 on November 1, averaged 191.61 for the month.

Most security prices continued to rise during the first two weeks of December and many reached new high levels for the year. On December 28, the Dow-Jones average stood at 199.59.

The total value of bond transactions on the New York Stock Exchange, although considerably below war and pre-war years, was up slightly from October to the highest level since December 1948.

Retailing As the old year bowed out, a majority of the nation's retailers reported that their 1949 dollar volume had been slightly below the record levels of the preceding year, but moderately above those of the previous peak year in 1947. Preliminary estimates placed 1949 retail dollar volume at approximately \$128 billion.

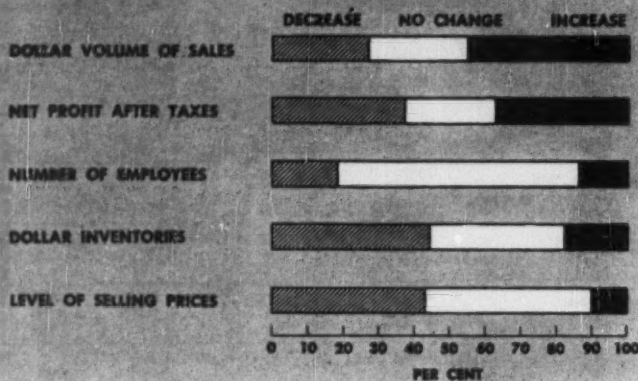
The spirit of Christmas spurred consumer buying during early December, although retail volume was somewhat exceeded by that of the corresponding 1948 period. Many shoppers began their gift buying somewhat earlier than they did in 1948, particularly in metal

	Year	First Quarter Monthly Average	Second Quarter Monthly Average	Third Quarter Monthly Average	Month	
					Oct.	Nov.
Employment, total	1947	57.3	59.4	59.5	59.2	58.6
Million persons	1948	58.4	60.3	61.0	60.1	59.9
	1949	58.9	59.7	59.7	59.0	59.5
Unemployment	1947	2.4	2.3	2.2	1.7	1.6
Million persons	1948	2.4	2.1	2.0	1.6	1.8
	1949	3.0	3.4	3.7	3.6	3.4
Farm Income	1947	2.1	2.1	2.8	3.8	3.3
Billion dollars	1948	2.1	2.2	2.8	3.7	3.2
	1949	2.1	2.0	2.4	3.2	
Consumers' Credit Outstanding	1947	10.1	11.4	11.6	12.3	12.9
Billion dollars	1948	13.2	14.7	14.9	15.5	15.7
	1949	15.5	16.1	16.5	17.2	
Hourly Earnings of Industrial Workers	1947	1.18	1.22	1.26	1.27	1.29
Dollars	1948	1.31	1.32	1.37	1.39	1.40
	1949	1.40	1.40	1.41	1.39	1.39
Weekly Earnings of Industrial Workers	1947	47.96	49.22	50.41	51.72	52.17
Dollars	1948	52.79	53.09	54.73	55.60	55.60
	1949	55.15	54.14	55.00	55.26	54.45
Manufacturers' Sales	1947	16.3	16.9	17.2	18.2	17.5
Billion dollars	1948	18.5	18.9	19.5	19.0	19.6
	1949	18.2	17.7	18.3	18.0	
Manufacturers' Inventories	1947	26.3	28.1	28.8	29.2	29.6
Billion dollars	1948	30.3	31.6	32.9	33.5	33.8
	1949	34.3	33.6	31.7	30.9	
Wholesalers' Sales	1947	7.6	7.5	7.4	8.4	8.0
Billion dollars	1948	8.3	8.4	8.5	8.1	8.2
	1949	7.8	7.5	7.5	7.3	
Wholesalers' Inventories	1947	7.3	7.9	8.4	8.6	8.6
Billion dollars	1948	8.7	8.8	9.4	9.7	9.7
	1949	9.4	9.2	9.2	9.2	
Retailers' Sales	1947	9.4	9.8	10.0	10.3	10.5
Billion dollars	1948	10.7	10.8	11.0	10.9	10.8
	1949	10.7	10.7	10.6	10.6	
Retailers' Inventories	1947	11.7	12.0	12.1	12.5	12.6
Billion dollars	1948	14.0	14.2	14.6	14.9	15.0
	1949	14.6	14.3	14.1	15.1	
Physical Production Index Adjusted 1935-1939=100	1947	189	185	181	191	192
	1948	193	191	190	195	195
	1949	188	174	168	166	171
Freight Carloadings	1947	3.8	3.7	3.8	4.7	3.5
Millions of cars	1948	3.3	3.6	3.8	4.6	3.3
	1949	2.9	3.1	3.0	2.4	2.6
Building Permits, 120 Cities	1947	155	189	232	261	228
Million dollars	1948	229	288	285	247	230
	1949	213	286	277	310	245
Commercial and Industrial Failures	1947	231	313	293	336	313
Number	1948	417	431	419	461	460
	1949	700	827	754	802	835
Liabilities of Failures	1947	14.5	17.5	20.7	21.3	16.3
Million dollars	1948	18.7	15.8	18.7	101.1	24.4
	1949	48.1	29.5	24.5	23.9	22.8

The figures above bring up-to-date some of the series included in "The Compass Points of Business" quarterly supplement to the November issue of Dun's Review. The next complete quarterly supplement will appear in the February issue of this magazine.

BUSINESS MEN'S EXPECTATIONS

FIRST QUARTER OF 1950 COMPARED WITH FIRST QUARTER OF 1949



THE latest soundings of executive opinion, taken during the final week of November, indicated that business men generally continue to be optimistic about business prospects for the first quarter of 1950.

DUN & BRADSTREET reporters conducted some 1,051 interviews among executives of the larger manufacturing, wholesaling, and retailing concerns, comprising a random sample of such concerns.

The November survey was the eighth monthly survey conducted during 1949. DUN & BRADSTREET's experiments with methods of measuring the "sentiment" of representative business men toward future operations of their companies have extended back over a period of eighteen months. While not conclusive, the surveys up to this time have seemed to be quite accurate.

The results of the November survey are quite similar to the first quarter 1950 expectations reported in the survey

conducted in late October. Both surveys reflected a generally optimistic view of business prospects for the first quarter of 1950. The only group showing a significant change in sentiment between the October and November surveys was retailers, who seemed considerably more optimistic in November than in October.

Among all lines of business except retailers there was an average anticipation that the dollar volume of sales during the first quarter of 1950 would be slightly above last year's first quarter volume. However, some decline in profits after taxes was expected in all but the manufacturing lines.

Among manufacturers, those engaged in producing nondurable goods expected higher profits this quarter while the durable goods producers anticipated a slight decline. These opinions offset each other and among manufacturers as a group the median expectation was no change in profits.

CHANGE FROM JANUARY-MARCH 1948 TO JANUARY-MARCH 1949 (MEDIANS)

	ALL BUSINESS	MANUFACTURERS			WHOLESALE	RETAILERS
		Total	Durable	Nondurable		
Dollar Volume of Sales	+1.5%	+2.2%	+1.7%	+2.9%	+1.3%	-0.3%
New Orders Received	...	-1.8	+1.8	+1.9
Net Profits, After Federal Taxes	-0.4	0.0	-0.8	+1.0	-0.2	-2.5
Number of Employees	-0.2	-0.2	-1.1	+0.7	0.0	-0.7
Dollar Value of Inventories	-2.2	-2.4	-2.9	-1.8	-2.6	-1.5
Level of Selling Prices	-1.2	-1.1	-1.2	-0.8	-1.2	-2.0

toys, television sets, and smaller home appliances.

Well-advertised promotions in November and December prompted consumers to increase their purchases of apparel, although total dollar volume was substantially below the 1948 level. The demand for women's accessories, men's Winter suits and furnishings, and children's apparel increased moderately. There was a substantial rise in the retail volume of home furnishings and furniture which approximated the high levels of a year ago.

Wholesaling While a seasonal growth in the volume of holiday reorders helped to boost aggregate wholesale volume in November and the first two weeks of December, total volume remained moderately below the level of the corresponding period a year ago. There was a noticeable rise in the volume of advance bookings for Spring and Summer merchandise.

A moderate rise in the wholesale demand for apparel during November consisted largely in an increased order volume for men's suits and furnishings, women's accessories, and children's apparel and shoes. Partly reflecting holiday demand and partly in preparation

WHOLESALE FOOD PRICE INDEX

The index is the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index.

Latest Weeks	Year Ago	1949
Dec. 13, 50.74	Dec. 14, 50.31	High Jan. 4, 56.12
Dec. 6, 50.76	Dec. 7, 50.33	Low Oct. 11, 50.57
Nov. 29, 50.79	Nov. 30, 50.36	1948
Nov. 22, 50.74	Nov. 23, 50.38	High July 11, 57.36
Nov. 15, 50.68	Nov. 16, 50.37	Low Dec. 14, 50.31

DAILY WHOLESALE PRICE INDEX

The index is prepared from spot closing prices of 30 basic commodities (1930-1932=100).

Week Ending	Mon.	Tues.	Wed.	Thur.	Fri.	Sat.
Dec. 17, 246.40	246.75	246.99	247.63	246.16	247.96	247.96
Dec. 10, 247.69	247.47	246.34	246.16	246.07	246.18	246.18
Dec. 3, 247.05	248.13	247.65	247.03	246.89	247.40	247.40
Nov. 26, 245.54	246.11	246.72	246.72	247.26	247.67	247.67
Nov. 19, 245.18	244.70	244.90	244.37	244.47	244.90	244.90

BUILDING PERMIT VALUES—215 CITIES

Geographical Divisions	November		Change
	1949	1948	
New England	\$16,048,935	\$17,018,084	+10.5
Middle Atlantic	50,490,694	72,082,825	-17.5
South Atlantic	34,043,573	25,062,852	+35.1
East Central	61,375,364	46,548,545	+31.6
South Central	51,829,002	36,698,563	+41.2
West Central	10,714,328	16,030,473	-22.0
Mountain	11,142,104	14,430,064	-22.8
Pacific	54,168,235	53,203,276	+1.6
Total U. S.	\$309,787,155	\$282,074,872	+9.5
N. Y. City	\$17,418,647	\$20,415,458	-24.3
Outside N. Y. City	\$227,138,508	\$239,559,114	-4.6

the HANNA BUILDING

CLEVELAND,
OHIO



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replaces **10**
car-switch elevators with **8** OTIS AUTOTRONIC ELEVATORS

Saves The Cost of 2 Cars and Reduces Passenger Waiting Time Throughout The Entire Business Day

Hanna Building tenants and visitors will be delighted with the time-saving convenience of modernized service. For the new Otis AUTOTRONIC Elevators, with their traffic-timed automatic supervision, have been designed to reduce the elevator interval from 50 seconds to less than 25 seconds during the morning peak period. A similar speed-up of service will be applied to the other 5 traffic patterns of the day. So, with the time interval reduced through automatic supervision, 8 AUTOTRONIC elevators will serve all floors — and give far better service than the manually operated 5 Express and 5 Local cars they replace.

From the management viewpoint there's the increased prestige of unexcelled elevator service and the economy of installing and operating 8 instead of 10 elevators. Otis AUTOTRONIC ELEVATORING — already bought by 38 NEW and MODERNIZED office buildings, hotels, banks and department stores — is explained in Otis Booklet B-721-D.

Elevator service in the Hanna Building Annex is also being modernized by replacing 4 Car-Switch Elevators with 2 Otis ELECTRONIC Signal Control Elevators. Here, too, the modernization will be dramatized with Otis electronic "touch" buttons that summon cars as if by magic. Otis Elevator Company, 260 11th Avenue, New York 1, N. Y.

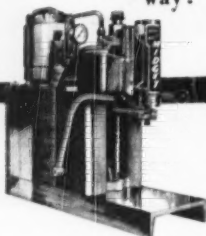


AUTOTRONIC
traffic-timed
ELEVATORING

HOW TO INCREASE PROFITS

... the **MULTIPRESS**
MIDGET

way!



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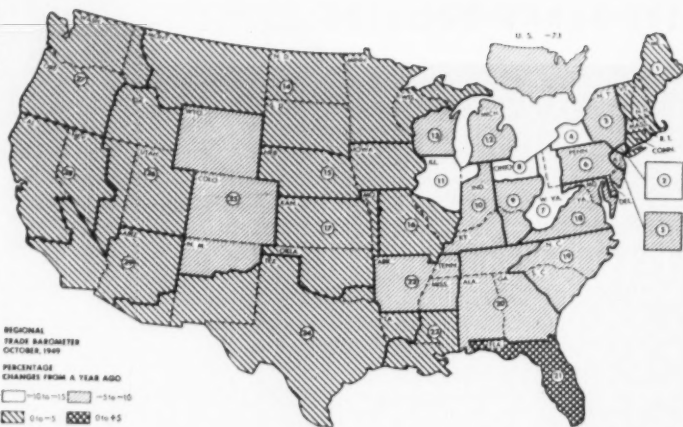


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REGIONAL TRADE BAROMETERS FOR 29 REGIONS
(1935-1939 = 100)

REGION:	Oct. 1949	% Change from Oct. 1948	Sept. 1949	REGION:	Oct. 1949	% Change from Oct. 1948	Sept. 1949
United States.....	285.3	-7.1	+1.0	15. Iowa and Nebraska.....	310.8	-4.9	+9.0
1. New England.....	217.9	-4.8	+1.7	16. St. Louis.....	287.4	-3.7	+6.0
2. New York City.....	224.1	-10.6	+2.7	17. Kansas City.....	333.3	-4.2	+12.2
3. Albany, Utica, and Syracuse.....	271.2	-9.0	+11.3	18. Maryland and Virginia.....	277.7	-8.5	-2.4
4. Buffalo and Rochester.....	266.1	-12.2	-5.6	19. North and South Carolina.....	310.4	-5.4	-0.7
5. Northern New Jersey.....	210.6	-6.9	+13.7	20. Atlanta and Birmingham.....	475.6	-9.5	-0.1
6. Philadelphia.....	259.9	-6.9	+0.7	21. Florida.....	387.3	+2.7	+3.0
7. Pittsburgh.....	260.3	-14.8	+2.2	22. Memphis.....	353.7	-5.4	-1.4
8. Cleveland.....	287.0	-12.4	+7.4	23. New Orleans.....	347.9	-1.4	+2.8
9. Cincinnati and Columbus.....	300.2	-10.0	+11.4	24. Texas.....	380.4	-2.3	+0.8
10. Indianapolis and Louisville.....	309.7	-9.5	-6.0	25. Denver.....	314.2	-11.2	-7.0
11. Chicago.....	259.3	-10.1	-2.1	26. Salt Lake City.....	316.6	-0.1	+7.3
12. Detroit.....	316.6	-8.7	+13.5	27. Portland and Seattle.....	330.7	-4.0	-5.6
13. Milwaukee.....	303.4	-9.2	-3.1	28. San Francisco.....	306.7	-0.9	+8.8
14. Minneapolis and St. Paul.....	310.0	-5.0	+9.9	29. Los Angeles.....	304.9	-2.9	+5.2

for post-holiday promotions, the buyer demand for home furnishings rose considerably. Household appliances were ordered in sizable volume, fractionally exceeding a year ago.

Trade Indexes Consumer buying fell 1.5 per cent in November as measured by the seasonally adjusted Dun's REVIEW Trade Barometer. The November index of 278.4 (preliminary) was 6.2 per cent below the 296.8 of a year ago. The barometer, based on 1935-1939 = 100, is also adjusted for the number of days in the month. The final barometer for October of 285.3 was 1.0 per cent above the 282.5 of September, but 7.1 per cent below a year ago.

The one barometer which exceeded the level of October a year ago was that of the Florida Region (21) with a rise of 2.7 per cent. The largest year-to-year drop was 14.8 per cent in the Pittsburgh Region (7). The sharpest monthly rise was 13.7 per cent in the Northern New Jersey Region (5) and the largest monthly decline was 6.0 per

cent in the Indianapolis and Louisville Region (10).

Failures Business failures continued to rise in November, reaching 835, the highest total since April 1949. Up 4 per cent from the preceding month, casualties were almost twice as numerous as a year ago and were about 20 per cent below the level in 1939 and 1940.

The failure rate rose to 40 for every 10,000 businesses in operation, as shown by DUN'S FAILURE INDEX which extends

BANK CLEARINGS
(Thousands of dollars)

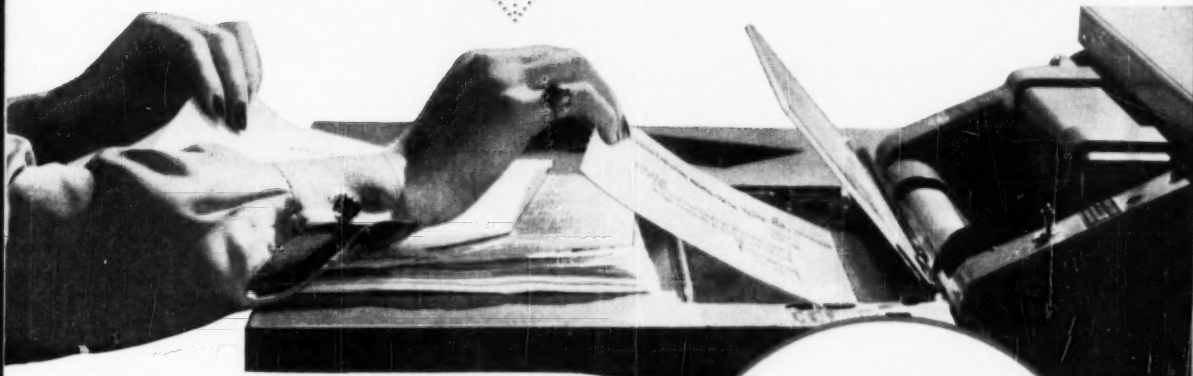
	November 1949	Nov. 1948	% Change
Total 34 Cities.....	26,886,307	26,084,077	+3.0
New York.....	28,625,195	28,507,375	+0.2
Total 25 Cities.....	25,531,403	25,078,355	+1.7
Average Daily.....	2,414,431	2,507,534	-3.7

NEW BUSINESS INCORPORATIONS

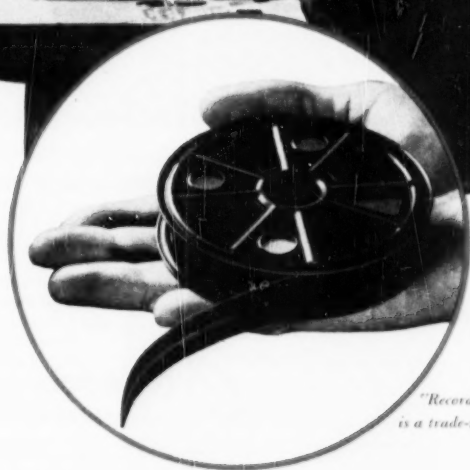
	Oct. 1949	Oct. 1948	-Ten Months-
New England.....	490	401	4,618
Middle Atlantic.....	2,422	2,187	24,088
East North Central.....	1,148	1,132	12,011
West North Central.....	332	358	8,871
South Atlantic.....	913	808	9,618
East South Central.....	106	241	2,320
West South Central.....	471	401	4,607
Mountain.....	260	266	2,540
Pacific.....	676	772	6,809

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the monthly rate to an annual basis and adjusts for seasonal fluctuation. Although reaching the highest level for any November since 1941, this failure rate remained lower than in any pre-war years on record, except for 1918 and 1919.

Liabilities fell slightly to \$22,799,000 from \$23,984,000 in October and \$24,416,000 in the comparable month of last year. The decline in liabilities and the upward movement in the number of failures reflect the fact that the sharpest increase is currently occurring in small casualties. Concerns succumbing with liabilities under \$5,000 rose to 203, almost three times their number a year ago and the highest total since March 1943.

THE FAILURE RECORD

	Nov. 1949	Oct. 1949	Nov. P. C. 1948	Chg.†
DUN'S FAILURE INDEX*				
Unadjusted	40.5	35.7	22.5	+ 7.7
Adjusted	40.5	39.7	22.9	+ 7.7
NUMBER OF FAILURES...	835	802	450	+ 82
NUMBER BY SIZE OF DEBT				
Under \$5,000	202	178	70	+ 190
\$5,000-\$25,000	427	402	246	+ 74
\$25,000-\$100,000	165	188	105	+ 57
\$100,000 and over	40	44	39	+ 3
NUMBER BY INDUSTRY GROUPS				
Manufacturing	197	181	125	+ 51
Wholesale Trade	97	102	58	+ 75
Retail Trade	395	364	208	+ 90
Construction	84	90	37	+ 124
Commercial Service	63	58	31	+ 103
(Liabilities in thousands)				
CURRENT	\$22,799	\$23,824	\$24,416	- 7
TOTAL	23,426	24,430	25,010	- 6

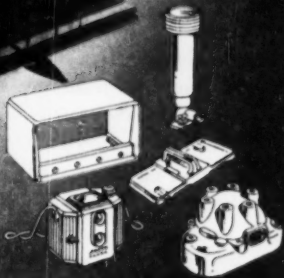
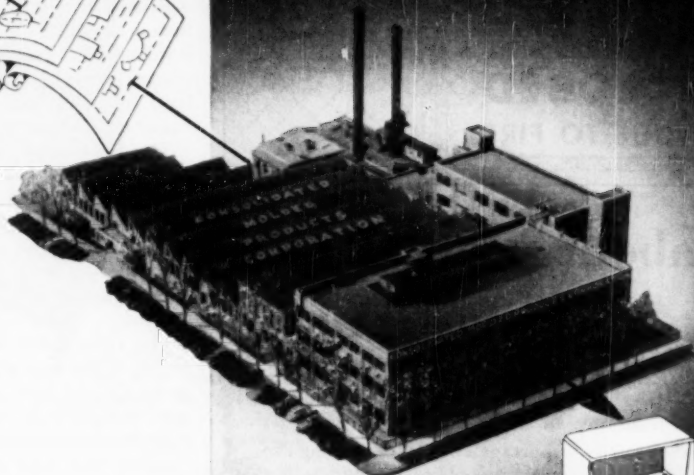
* Apparent annual failures per 10,000 enterprises, formerly called DUN'S INSOLVENCY INDEX.

† Per cent change of November 1949 from November 1948.

FAILURES BY DIVISIONS OF INDUSTRY

	Number (Current liabilities in thousands of dollars)	Jan.-Nov. 1949	Jan.-Nov. 1948	Chg.
MINING, MANUFACTURING...	2,130	1,426	155,800	108,412
Mining—Coal, Oil, Misc....	69	47	8,299	1,424
Food and Kindred Products	267	152	20,428	13,218
Textile, Products, Apparel...	312	145	15,254	5,053
Lumber, Lumber Products...	355	249	15,128	8,880
Paper, Printing, Publishing...	95	53	5,549	2,400
Chemicals, Allied Products...	75	47	2,515	3,415
Leather, Leather Products...	87	60	4,287	2,155
Stone, Clay, Glass Products...	45	42	4,565	2,572
Iron, Steel, and Products...	147	73	19,230	8,840
Machinery	219	205	23,562	31,521
Transportation Equipment...	77	41	6,064	9,192
Miscellaneous	358	235	16,732	15,689
WHOLESALE TRADE...	1,020	665	49,123	21,885
Food and Farm Products...	288	161	11,760	9,174
Apparel	52	30	3,124	610
Dry Goods	25	16	649	450
Lumber, Bldg. Mats., Hbrs...	111	52	5,233	1,016
Chemicals and Drugs	48	31	1,547	633
Motor Vehicles, Equipment...	63	33	2,754	1,275
Miscellaneous	433	293	15,053	9,014
RETAIL TRADE	3,597	1,668	61,980	35,575
Food and Liquor	845	494	10,575	6,022
General Merchandise	157	78	2,031	1,233
Furniture and Accessories...	549	289	8,888	4,511
Furniture, Furnishings...	442	195	8,056	3,543
Lumber, Bldg. Mats., Hbrs...	254	142	4,660	2,434
Automotive Group	409	178	7,231	5,012
Eating, Drinking Places...	713	374	13,879	8,417
Drug Stores	608	40	2,121	774
Miscellaneous	418	184	6,220	2,778
CONSTRUCTION	758	375	25,431	13,211
COMMERCIAL SERVICE	671*	420*	2,320*	2,191*

* The Failure Record from 1945 to date has been revised to exclude all railroad failures; data is now comparable with years prior to 1945 when railroads were not included.



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SOCIAL SECURITY

(Continued from page 15)

is already accrued for the past service of employees and of the liability accruing each year. After the company has been in business for a number of years it will be found that the amount of the accrued liability for past service will be a substantial item. However, it can be financed over a period of years.

The Bureau of Internal Revenue permits payments for the accrued liability to be deducted for income tax purposes if the payment is spread over a period of ten years, and also permits payments for current liability of 5 per cent of payroll, or more if it can be justified.

The experience of the Eastman Kodak Company, which adopted a group annuity plan in 1928, offers a good example of the fast rate at which retirement payments increase. The company had been in existence for about 30 years when, in 1928, it took out a group annuity contract with an insurance company. Payment of \$8 million was made the first year to meet a large part of the liability which had accrued to that time and substantial payments have since been made annually to the insurance company to meet the current year's liability.

A few workers retired in 1929 and an increasing number each year since. The actual retirement annuities paid to these retired workers by the insurance company increased a hundred-fold from \$12,000 in 1929 to \$1.2 million in 1949. These payments will continue to increase rapidly for the reasons already enumerated.

Once a company has decided to set up a plan on a sound basis, one of the first questions to arise will be whether the funds should be kept by the company or turned over to an insurance company or a trust company. Unless the company is a very large one and firmly established, it would be hazardous to set aside a reserve fund on the company's books for the payment of annuities. In practically all cases the conservative policy would be to put the funds outside of the business and

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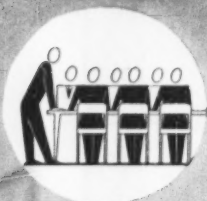
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for both
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Two Ways to Think



QUESTION: YOU ARE FACED WITH A SUDDEN NEED FOR MORE HIGHLY-SKILLED MANPOWER. WHAT WILL YOU DO?

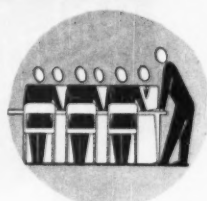


Answer of EXECUTIVE GROUP A:

WE SHALL ADD TO OUR PAY-ROLL TEMPORARILY: attempt to hire more engineers and work our staff overtime.

Answer of EXECUTIVE GROUP B:

WE SHALL NOT DISTURB OUR PRESENT STAFF: we will get temporary assistance from a well-established, capable firm of engineers and designers.



QUESTION: YOU ARE GOING TO DEVELOP A NEW PRODUCT, OR REDESIGN A PRESENT ONE, AND PUT IT INTO PRODUCTION. WHAT WILL YOU DO?



Answer of EXECUTIVE GROUP A:

WE WILL FOLLOW OUR CRAFT TRADITION, using the same features and basic production methods we now have, and "dress it up."

Answer of EXECUTIVE GROUP B:

WE SHALL BRING IN ALL THE NEW KNOWLEDGE of consultants who work with many industries —new methods, materials, machining processes, and crafts.



QUESTION: YOU MUST CUT COSTS THROUGH DRASTIC IMPROVEMENTS IN PRODUCTION METHODS. WHAT WILL YOU DO?



Answer of EXECUTIVE GROUP A:

WE WILL CALL A MEETING of our executives and put our entire staff to work on it.

Answer of EXECUTIVE GROUP B:

THIS CALLS FOR OUTSIDE EXPERIENCE, bringing to bear on our problems the most progressive ideas of modern manufacturing.



To Executive Group A

Find out about the varied services of the Pioneer staff. Solving the problems of several industries has given Pioneer the experience that can save you time and money.

To Executive Group B

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The Pioneer Staff *answers most of the problems!*



INTERNAL ORGANIZATION

Establishment of the framework to execute management's policies; simplification of routines to handle orders, records and reports with minimum paperwork; allocation of responsibility and authority to prevent friction caused by overlapping controls.

PRODUCT DESIGN AND DEVELOPMENT

Realistic comparison drawn between cost of developing and manufacturing a new product and probable realization of returns; existing products redesigned for increased sales appeal by comprehensive analysis of appearance, function and performance.

PRODUCTION METHODS

Study of production sequence to eliminate, combine, change order of, or simplify operations; analysis of basic process and recommendations for machines, tools and accessories to competently balance out production lines.

QUALITY CONTROL

Compilation of accumulative tolerance charts to assure any product meeting established manufacturing limits; correct location of inspection points and setting of standards and procedures to keep scrap at absolute minimum.

TOOL AND SPECIAL MACHINE DESIGN

Design of tools, dies, jigs, fixtures and gages to complement and implement any machine; modern production problems conquered by specially designed machine tools incorporating hydraulic, pneumatic or electronic controls.

TIME AND MOTION STUDY

Determination of quickest and best work sequence with suggested improvements in workplace, methods and tools; study of operators' physical movements to correct bad operating practices, lessen fatigue and increase efficiency.

MATERIAL HANDLING

Unbiased recommendation and selection of equipment best suited to job—whether it be hand trucks, truck tractors, power-lift trucks, stackers, gravity-roll, power or chain conveyors, cranes or hoists.

PLANT LAYOUT

Flexible plant arrangements for steady progression of production obtained through preparation of process flow charts which clearly reveal bottlenecks; charts may be projected into template or scale model layouts for even more detailed study.

PRODUCTION CONTROL

Channeling work through a plant so sales schedules are kept in definite balance with production capacity; machine loads are accurately charted to give assurance that delivery dates can be met.

COST CONTROL

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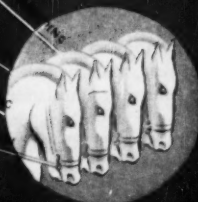
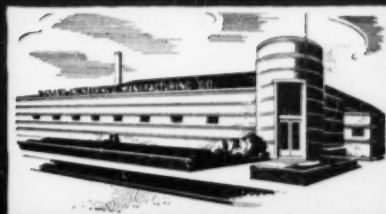
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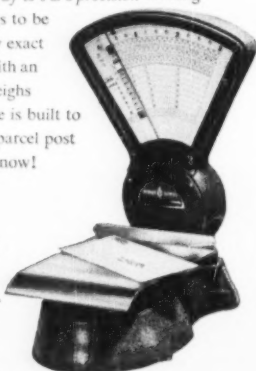
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turn them over to either a trustee or an insurance company where they would be beyond the commercial hazards of the business and where they could be used only for pension purposes.

Insurance companies and large trust companies are now active in soliciting pension funds. If it is decided to use a trust company, an actuary, either employed by the bank or by the company, makes an estimate of the cost of the liability accrued to date and the liability accruing each year in the future. Established mortality tables are used to estimate the number of employees who will die before retirement. Allowance is also made for employees who will probably leave the employ of the company before reaching retirement age; it is difficult to make an accurate estimate but past experience will serve as a guide.

Financing Plans

The trust company also estimates the interest which it will earn on investments and the expense involved. The company then decides upon the amount which it can put into the trust company immediately to pay for the accrued liability and how long a period it will take to finance the balance. The company generally plans to meet the current cost each year. The account is reviewed from time-to-time to determine how the experience checks with the estimates.

When an employee is retired, the trust company generally purchases from an insurance company the annuity to which the individual is entitled. In the case of large trust companies, annuity payments are made direct to the individual.

There are two types of plans available from the insurance company: one is known as deposit administration, in which a company deposits money in the same way that it would with a trust company and the insurance company makes the annuity payments when a person retires. The type more generally used by insurance companies is known as the group annuity plan. Under this plan an annuity is purchased each year for the service of the employee for that year, with the objective of building up an accumulation over the years which would be adequate upon retirement. No allowance

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is made for employees who might leave, but for those who do leave, the insurance company will credit the account for the annuities purchased less a small separation charge.

There are advantages and disadvantages in each plan. For the trust company and the deposit administration plan it is argued that the plans are more flexible in that no stated amount is required to be purchased each year; and because allowances are made for turnover, the initial cost will probably be lower. It is also argued that the trust company has more flexibility in regard to investments than an insurance company.

Group Annuity Plan

The disadvantage is that the employer is not sure whether his funds will be adequate because too much of an allowance might have been made for expected turnover and other estimates might prove inaccurate. The employer must also keep in close touch with the actuary and the trust company and much time is required by the executives of the company, who are generally not so well informed on actuarial and investment problems.

The advantages of the group annuity plan are that the employer will have a more accurate estimate of the cost and he obtains definite guarantees of the insurance company on annuities purchased. If any change is made in the plan he will know what the cost will be. The employer is not concerned with the actuarial or investment problems; the insurance company takes care of these.

Over a long period of time there will probably be very little difference in cost between the two plans, assuming that both insurance company and trust company are able and experienced in this field. The cost of the system will be the sum of the actual payments which are made to retired persons, plus the cost of administration, minus interest earned on the funds accumulated. As the payments to the pensioners will be the same under either plan, the only difference will arise from the cost of administration and the interest.

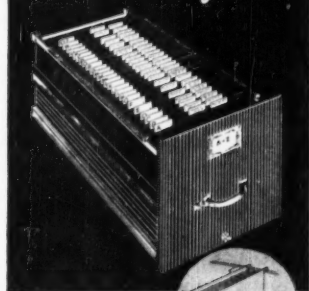
The cost of pension plans has increased considerably in recent years for two reasons. The mortality is lower—a higher percentage of people are reach-



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ing retirement age and are living longer after retirement. Secondly, a much lower rate of interest is being earned on investments.

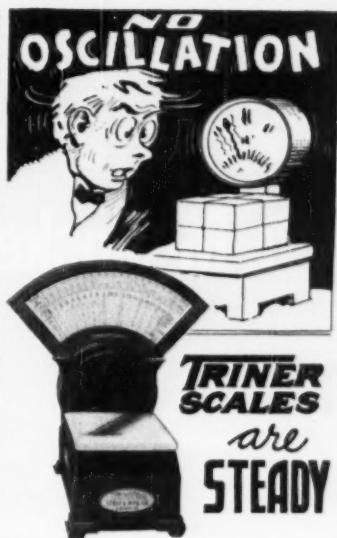
Amount of Benefits

The retirement benefits in most plans are based upon salary and length of service. In few plans are flat amounts paid. It is necessary to integrate the benefits of a private plan with those of the OASI plan because the Government plan provides relatively higher benefits for the lower wage groups and no benefits for wages above \$3,000. An ideal plan is one which will provide from both private and Government plans a benefit of 2 per cent of pay for each year of service. This is generally done by providing 1 per cent of the first \$3,000 of earnings and 2 per cent for earnings over \$3,000.

In plans starting on this basis, however, it is customary to provide a lower benefit for past service, generally 1 per cent of the salary at the inauguration of the plan, multiplied by the number of years of prior service. If a person had 35 years of service under a plan of this type, all on a 2 per cent basis, he would retire on 70 per cent of his average pay.

Since, however, the final pay in most cases is well above the average pay, due both to increase in general wage levels and to higher paid jobs for the individual, this pension seldom exceeds 50 per cent of the final pay. For companies who could not finance the cost of this ideal plan, the rates could be scaled down to 1.5 per cent for future service and .75 per cent for past service. Another method to reduce the cost is to give no credit on the first \$1,000 or \$2,000 of annual wage; or no credit for service prior to a stated age, say, 30 or 35, or for the first five years.

This method of determining benefits is generally used by insurance companies. In other plans the benefits are based upon the average salary for the last five or ten years of service prior to retirement. This latter type provides benefits more in keeping with current wage levels, but it will probably prove to be much more expensive than the cost originally estimated, due to change in wage levels, and financing may become difficult. The former method of financing is more conservative, but the



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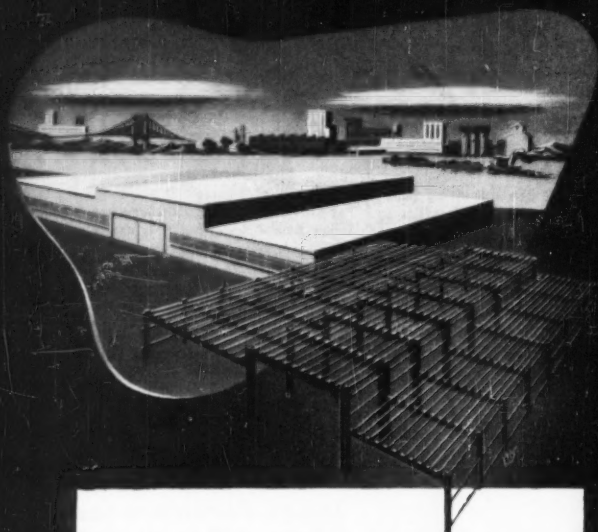
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benefits might not prove to be adequate. However, supplementary benefits can be paid and the exact cost is known at the time they are made.

If the Social Security benefits are increased along the lines of the House bill, companies with supplementary pension plans will face the decision as to what, if any, change should be made in the benefits of their plans. Some plans provide for certain benefits with deductions for Social Security benefits, but in most cases the benefits are definitely fixed.

Retirement Age

As very few pension plans now provide adequate benefits, particularly because of the increase in wages and cost of living during the last few years, most companies will probably find it advisable to continue to pay the same benefit under the company plan as heretofore so that workers will receive full benefit from the increase in the Government plan. Many companies have already found it necessary to pay additional pensions because of the increase in the cost of living.

Likewise, with a new plan, it probably will still be advisable, if the company can finance it, to provide a benefit of 1 per cent on the first \$3,000 of salary and 2 per cent for salary above or if the base is changed to \$3,600, 1 per cent on the first \$3,600 and 2 per cent above that amount.

Those who have had considerable experience with pension plans feel that for the workers in the lower wage groups a combined annuity from the Government plan and the private plan of approximately 50 per cent of final pay is about right. For the middle income group a rate between 40 and 45 per cent would be adequate, with lower percentages for the higher salary group. There would thus still be strong incentive for the individual to practise thrift throughout his working lifetime so that he can live in retirement without too much of a drop in the scale of living to which he has been accustomed.

The great majority of retirement annuity plans in effect now provide a normal retirement age of 65 for men. Until recently the retirement age for women was generally set at 60. As the Social Security Act provides a re-

BUSINESS IN MOTION

To our Colleagues in American Business...

One of the many good qualities of copper is its ability to withstand a great deal of cold working without injury. Nevertheless, rolling, drawing, stamping and similar operations do increase the hardness of the metal. If enough of this cold work is done, it becomes necessary to anneal it, that is, heat it to the proper temperature to relieve the internal stresses and permit the metal to become ductile again, ready for additional forming operations.

Annealing is expensive, because it requires accurately controlled heat and skilled labor. For that reason it is a matter of concern to manufacturers, and Revere often is asked if it is possible to eliminate or at least reduce the number of anneals. Frequently this can be done. Take the case of a coffee pot. No less than five anneals seemed necessary in order to produce this quality product. Costs were high; could they be reduced?

The customer's metallurgist and the Revere Technical Advisory Service studied this problem in detail, attacking the matter together. When they arrived at what seemed to be a promising solution (on paper) it was proved out by exhaustive tests. It was found that by using Revere copper strip in a certain temper, four anneals could be eliminated. Now, after drawing to $7\frac{3}{4}$ inches deep, the copper body is annealed once and for all, then spun into its final graceful shape. Based on current production, the



saving amounts to over \$10,000 a year. There are additional savings due to simplified handling in the factory. The reduction in the number of anneals also seems to have a favorable influence on the economy of the finishing operations, including tin plating inside, nickel and then chromium outside.

To make such a deep draw while holding rejects to a minimum requires skill on the part of the customer, plus careful fulfillment of the metal specifications by Revere. This is said in no prideful spirit.

There are a great many skillful manufacturers in all lines, and many careful, conscientious suppliers of everything from metals to plastics, textiles to lumber, chemicals to paper. The whole point of this particular story of the saving of \$10,000 a year poured out of a coffee pot is that it was accomplished by the most thorough kind of collaboration between the maker of the pot

and the supplier of the metal. It was that joint effort that made the saving possible.

Perhaps you do not make coffee pots. Maybe you do not buy copper, brass, bronze, nickel silver, cupronickel, aluminum, or any other Revere Metals. No matter. It may be that if you will take your suppliers into your confidence in the common cause of cost reduction you too will be able to effect savings and improve your product, just as happened in this case.

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retirement age of 65 for women, some companies pay an amount equal to the Government benefits from age 60 to 65. There is an increasing tendency in business and industry for women to work to 65 and it seems unlikely that the retirement age for women in the Social Security Act will be changed soon. For these reasons more recent plans often provide retirement age of 65 for both men and women. A retirement age lower than 65 increases the cost considerably because of the shorter period of time in which to accumulate funds and a longer period in which to pay benefits. A retirement age of 60 would cost about 50 per cent more than one of 65.

Contributory Plans

In the high employment period during the war and thereafter many companies relaxed the retirement provisions, but with the decline in employment because of the recent recession, normal retirement practises have been resumed. Most plans permit optional retirement at any age after 55 but the amount would be reduced by the actuarial discount—at 60 the reduction would be about 40 per cent for men.

The movement toward contributory plans was given considerable impetus when the Federal Old Age Insurance Plan was put on a contributory basis, with equal contributions from employer and employee. Since it was easy to tie in a contributory company plan with the Government plan, a large percentage of plans adopted between 1935 and 1942 were of the contributory type.

During the war and the early post-war period of high corporation income and excess profits taxes, this tendency was reversed and many companies started plans on a non-contributory basis. The cost to the company was considerably reduced by taxes and the tight employment situation induced companies to bear the entire cost rather than to ask the employees to contribute. Since the repeal of the Excess Profits Tax, the trend toward contributory plans has been resumed.

There are certain advantages in the non-contributory plan. It is assured that all employees will be covered. The administration cost is lower and the employer retains more control. The

employer's cost is reduced by corporation income tax but the employee's contributions are not deductible from income tax. Thus the combined net cost of the non-contributory plan will be less. There is a movement under way to permit the employee's contributions to be deductible—this would stimulate the adoption of contributory plans.

Greater Employee Interest

The advantages of the contributory plan seem greater. Higher benefits can be provided for the employee because of his own contribution. He has a greater interest in the plan and probably appreciates it more. It is more in keeping with our system of individual initiative and thrift. It is an ideal method of accumulating savings. When this plan is offered to the employees a very high percentage generally accept it. In most cases the employer pays the entire cost of the accrued liability, and all employees except those of very short service, benefit from the employer's contribution.

Another advantage to the employee is that under most contributory plans the "vesting" period, namely, the period of service after which an employee is entitled to the full pension accumulated, is generally shorter in the contributory than in the non-contributory plans. In the past, under most non-contributory plans, the employee would not be entitled to a pension until he had a service of 20 or 25 years. Recently this period has been reduced but seldom is less than fifteen years' service required.

Contributory plans always provide for the return of the employee's contributions, generally with interest. Most of these plans also provide that if a person stays with the company for five years and leaves his own contribution with the insurance company, he would be entitled to part of the employer's contribution. If he remains in service for, say, ten years, it is often provided that the employee would receive benefit not only from his own contribution but also from all of the employer's contributions.

It is impossible to set up an estimate of the cost of a pension plan for an individual company until an analysis has been made of the people on the payroll—that is, salary, age, and length of

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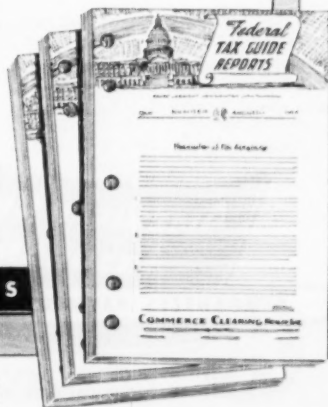
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service. The cost of a plan for a young company, with young employees, would represent a much smaller percentage of the payroll than the cost for an old company with a large number of older employees.

The third in this series of significant articles will discuss the unemployment insurance program in terms of the proposed changes now being considered by the Government; it will appear in a future issue.

OUTLOOK

(Continued from page 12)

about \$2,940. To provide the same amount of plant for 500,000 new workers a year would require annual expenditures of \$1.5 billion. In order to increase plant per worker about 1.5 per cent a year, additional expenditures of \$2.4 billion would be required. Normal expenditures on industrial construction for replacement and expansion may be put roughly at \$8.6 billion a year. In 1948, these expenditures were over \$8 billion a year. In 1949, they will probably be slightly smaller. In short, expenditures on industrial plant are well below normal.

I do not believe that expenditures on industrial construction in the next few months will drop significantly below the present fairly low levels. In fact, there are signs that the trend is now upward. In the second quarter of 1949, private non-residential contract awards (in 37 eastern states) were 11.4 per cent below the second quarter of 1948, but in the third quarter they were only 1.1 per cent below the third quarter of 1948. In September 1949, private industrial construction contract awards were 23.3 per cent above September 1948; in October, 12.9 per cent above October 1948; and in November 1949, 10.7 per cent above November 1948. Considerable industrial construction has probably been held back in anticipation of lower costs and more favorable building conditions. Although industrial construction may rise well above the present rate, I assume that approxi-



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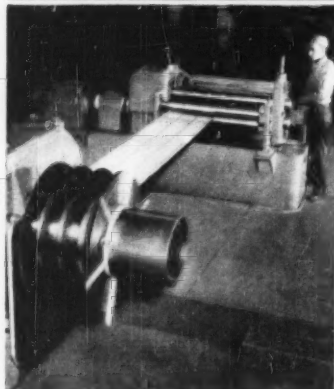


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mately the present rate will continue.

3. **Residential construction:** The increase in the number of families will require about 600,000 new dwelling units a year—though the number may be smaller for a few years beginning about 1952. If the cost of a new dwelling unit to the buyer is \$8,000 (about the same as in 1948), expenditures on new housing will run around \$4.8 billion a year. In addition, about 200,000 of the country's 45 million dwelling units need to be replaced each year. At an average of \$8,000 per unit these expenditures will be \$1.6 billion per year. The total "normal" expenditures on housing may be estimated roughly at \$6.4 billion a year. In 1948, expenditures on residential construction were over \$8 billion, and in 1949 they will be about \$7 billion.

Housing Backlog

An early drop in expenditures on housing to the normal rate is not likely. There is still a substantial backlog of demand for housing. Between 1940 and 1948, the number of dwelling units in the United States increased by about 7.6 million. Of this increase, about 5.9 million dwelling units were provided by new construction and about 1.7 million by subdividing existing dwelling units. The quality of many of the dwelling units provided by subdividing old houses is quite uncertain, and in many cases it is undoubtedly quite poor. Many of the dwelling units created by subdividing old houses must be regarded as temporary. The increase in the number of families between 1940 and 1948 was about 6.9 million, or about one million more than the number of dwelling units provided by the construction of new houses during that period. The demand for housing is sustained by the large increase in population that has occurred since 1940. The gain in population for the decade will be about 19 million—the largest in the history of the country.

The underlying strong demand for housing is well reflected in new contract awards. In the first quarter of this year new residential contract awards were 19.1 per cent below the first quarter of 1948; in the second quarter, they were 5.2 per cent below the second quarter of 1948; and in the third quarter, they were 30.3 per cent above

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the third quarter of 1948. Especially large were the increases in contract awards for residential building in September and October. In September 1949 they were 87.9 per cent above September of last year; in October, 68.7 per cent above October 1948; and in November, 64.8 per cent above November 1948. Between September and October there was no drop in the number of new dwelling units started: it was 100,000 in each month. In November new housing starts were 93,000. In September new housing starts were nearly 22 per cent above last year; in October, 36 per cent; and in November, 46 per cent above. During the first half of next year expenditures on housing will probably be larger than during the corresponding months of 1949.

Deficit Increase

4. *The budget deficit:* The Federal budget basis for the fiscal year 1949-1950 will have a cash deficit of about \$5 billion. This includes the disbursement of the insurance dividend of \$2.8 billion to veterans early in 1950. The deficit is increased by over a billion dollars by the home mortgage purchases of the Federal National Mortgage Association. There will also be a deficit in the State and local budgets. The size of the latter is quite uncertain, but it will probably be at least \$1 billion and perhaps substantially more. I assume that the cash expenditures of all government units during the twelve months ending June 30, 1950 will exceed their cash receipts by \$6 billion.

The foregoing analysis indicates that the total volume of investment and the budget deficit during the period immediately ahead will be running at the annual rate of \$35.2 billion to \$38.0 billion a year. The lower figure assumes that purchases of industrial equipment drop from the annual rate of \$20.1 billion (as in the third quarter of 1949) to \$14.2 billion per year; the higher figure, that these expenditures drop to \$17 billion a year. The figures assume no net investment by Americans abroad. In 1948, gross private investment, exclusive of inventory accumulation and net foreign investment, was \$38.6 billion. During 1949, gross private domestic investment, exclusive of inventory accumulation or decumulation, was at an annual rate of \$38.0 bil-

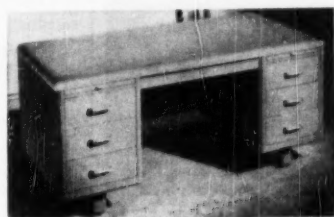


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lion in the first quarter; \$36.8 billion in the second quarter; and \$37.4 billion in the third quarter.

The total amount of gross national product which will accompany any given volume of private investment and budget deficit will depend upon the rate of saving. As the figures on saving are somewhat unreliable, the best way to estimate the gross national product that will accompany a given volume of gross private investment and government deficit is to note the relationship between gross national product and investment that has prevailed in recent years, and then to analyze whether the rate of saving is rising or falling. In recent years the gross national product, gross private investment less government surpluses or plus government deficits, and the volume of personal and corporate savings have been as follows:

	Gross National Product	Gross Private Investment Less Government Surpluses or Plus Government Deficit	Dollars of Gross National Product per Dollar of Gross Private Investment less Budget Surplus or Plus Budget Deficit
1946	\$212.6	\$28.1	\$7.6
1947	235.7	24.4	9.7
1948	262.4	37.5	7.0
1949:			
I	261.5	40.8	6.4
II	259.6	41.3	6.3
III	256.3	36.7	7.0

In the first half of 1948, when the gross national product was running at the annual rate of \$256.5 billion and gross investment less the budget surplus at the rate of \$30.4 billion, there were \$8.4 of gross national product for every dollar of gross private investment less the budget surplus. In the second half of the year when both the rate of saving and the rate of investment were somewhat higher, there were \$5.7 of gross national product for every dollar of gross private investment less budget surplus.

The record of the last year or so indicates that the propensity to save which has prevailed during that time will cause the gross national product to run from 6.5 to 7 times as large as gross private investment, minus budget surplus or plus the budget deficit. If private investment plus the budget deficit were as low as \$35.2 billion and if there were \$6.5 of gross national product for every dollar of gross private investment (plus budget deficit), the gross national product would be \$228.8 billion—a substantial drop from the

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rate of \$256.3 billion during the third quarter of 1949. On the other hand, if there are seven dollars of gross national product for every dollar of gross private investment and budget deficit, the gross national product would be \$246.6 billion, or moderately below the rate in the third quarter of 1949.

If gross private investment plus budget deficits were as high as \$38.0 billion, the gross national product would be \$247.0 billion, provided there were 6.5 dollars of gross national product for every dollar of gross private investment plus budget deficits and \$266.0 billion, provided there were 7 dollars of gross national product for every dollar of gross private investment. If there were 8 dollars of gross national product for every dollar of private gross investment plus budget deficits, gross investment of \$35.2 billion would produce a gross national product of \$281.6 billion and gross investment of \$38.0 billion, a gross national product of \$304.0 billion.

Post-War Rate of Saving

This analysis indicates that changes in the ratio between gross private investment and gross national product bring about large changes in the gross national product. There is convincing evidence that the rate of personal and corporate saving has been dropping during the last six months and the rate of corporate saving, at least, will probably continue to drop. The rate of personal saving reached a peak in the second half of 1948 and the first quarter of 1949. In the first half of 1948 personal savings were 4.6 per cent of personal incomes after taxes; in the second half they were 7.7 per cent of personal incomes after taxes; and in the first quarter of 1949 they were 8.4 per cent. By the third quarter of 1949 the rate of personal saving had dropped to 6.9 per cent of personal incomes after taxes.

It is still too early to tell what is a "normal" rate of personal saving for the post-war period. Real per capita incomes are considerably larger than in 1929—in the second quarter of 1949, about 38 per cent larger than in 1929 and nearly 31 per cent larger than in 1940. The rise in real per capita incomes tends to increase the rate of saving—though the rise in real incomes has been greatest in the classes which do the least saving, and least in the



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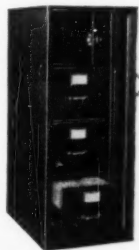
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classes which do the most saving. The rate of net personal saving is greatly affected by the rate at which unincorporated businesses incur or repay debts and the rate at which individuals incur or pay debts. Personal saving was low in the year 1947 partly because unincorporated enterprises and individuals were borrowing at a high rate. On the other hand, the rate of saving has been high in some years because there has been a strong demand for housing and other types of goods bought with savings. For example, of gross personal savings of \$18.0 billion in 1948, \$7.1 billion went into the purchase of non-farm residences and \$9.4 billion into the purchases of plant and equipment for unincorporated enterprises, including farms. Personal savings represented by the purchase of securities or private insurance were much less than non-liquid savings—\$7.9 billion.

All of these conditions make it difficult to judge what the normal post-war rate of saving will turn out to be and what form post-war savings will take—whether they will be mainly the result of decisions to buy houses or plant and equipment for business enterprises or whether they will go into securities and insurance and seek outlet in corporate industry. I suspect that the normal saving rate will be somewhat above pre-war and somewhat below present rates of savings—perhaps in the neighborhood of 6 per cent of personal incomes after taxes. This is well below the rate of personal saving during the third quarter of 1949. Part of the drop in saving, however, is likely to take the form of a drop in investment in unincorporated business enterprises. This kind of drop is of less help in sustaining business than a drop in liquid savings. No significant drop in liquid savings, however, seems likely. The volume of liquid saving does not seem to be high by pre-war standards. Furthermore, the rate of this saving will be kept up by the repayment of debts.

Although no significant drop in personal liquid savings is likely, some drop in corporate savings is to be expected. During the last year and a half corporate savings have been about as large as personal savings—part of the time considerably larger. Corporate savings should be computed after profits

have been adjusted for the change in the cost of replacing inventories. This adjustment causes corrected profits to be less than reported profits in 1948 and more than reported profits in 1949. Hence, it causes corporate savings to be less than those indicated by the published reports of corporations in 1948 and to be more than those indicated by the published reports of corporations in 1949. Nevertheless, in the third quarter of 1949, corporate savings, computed on the basis of profits corrected for inventory valuation adjustment, were at an annual rate of \$10.9 billion—the smallest rate since the first quarter of 1948 (see table on page 46). Some further drop in the rate of corporate saving is likely because many enterprises have completed the most urgent part of their post-war investment program.

Basis for GNP 1950 Estimate

If the rate of personal saving and of corporate saving continue to drop, one dollar of gross private investment (plus budget deficit) may produce 7.2 to 7.5 dollars of gross national product. If gross private investment and budget deficit is \$35.2 billion, gross national product would be from \$253.4 billion to \$264.0 billion; if gross private investment were \$38.0 billion, gross national product would be from \$273.6 billion to \$275.0 billion. The lowest figure, which happens to be slightly below the rate of output in the third quarter of 1949, may be accepted as the smallest annual rate of output to be expected during the first half of 1950. My belief is that the actual rate will probably be moderately above this—perhaps around \$265 billion as an annual rate.

This conclusion is based upon the belief that the annual rate of gross private investment plus the budget deficit is not likely to drop below \$37 billion during the next six months and that the rate of saving is likely to drop far enough to make possible at least 7.2 dollars of gross national product for every dollar of gross private investment plus budget deficit.

An examination of the short-run business outlook would not be complete without an inquiry into the problem of agricultural surpluses. Agricultural output in the United States in 1948 was 17.3 per cent larger than in

1940. Since population increased from 132.0 million to 140.5 million in the same period, the per capita increase in agricultural production was only 14.5 per cent. Exports of agricultural products have increased, but the consumption of food per capita in the United States is about 10 per cent above pre-war.

Agricultural Price Rise

Although the supply of agricultural products has increased, the demand has grown even more. Furthermore, any tendency for surpluses to depress prices has been limited by the price support program of the Federal Government. As a result, the prices received by farmers in 1948 were 187 per cent higher than in 1940. In November 1949, prices received by farmers were 139 per cent above 1940, but the general wholesale price level had risen much less—it was 93 per cent above 1940. The demand for agricultural products plus the Government support programs caused the production of disposable income spent for food to rise from 30 per cent in 1929 and 29 per cent in 1940 to 34 per cent in 1946, 36 per cent in 1947, and 34 per cent in 1948.

These high expenditures by consumers for food have not prevented a considerable increase in the stocks of agricultural goods on hand. The carry-over of wheat, which averaged 155 million bushels in the period 1935 to 1939, was 293 million bushels on July 1, 1949. Exports from the United States will have to be at about 450 million bushels in the next crop year in order for the carry-over next year to be no larger than at present. The corn carry-over, which averaged about 500 million bushels in the period 1937-1941, was 800 million bushels on October 1, 1949. By October 1, 1950, the corn carry-over will probably be in excess of a billion bushels for the first time in history.

The domestic supply of cotton for the 1949-1950 season will average about 21.5 million bales, an increase of about 3.6 million bales over last year. The carry-over will rise from about 5.3 mil-

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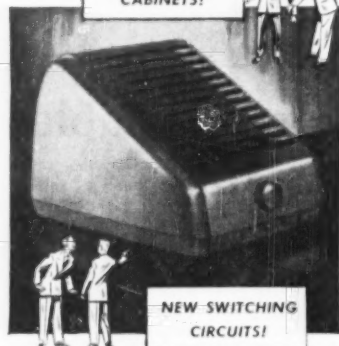


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lion bales to around 8.7 million bales in August 1950. This will bring the carry-over above the level of the enormous pre-war carry-overs when the average for the period 1935-1939 was 8.3 million bales.

In view of the fact that the relations between the United States and Russia are not good, large stocks of agricultural products are desirable. Considerable progress is being made in restoring agricultural output throughout the world. Although exports of crude foodstuffs by the United States in the first quarter of 1949 were 4.9 times in physical volume the exports in the period 1936-1938 and were substantially larger than in 1947 or 1948, the dependence of other countries upon the United States is diminishing.

Problems of Price Revision

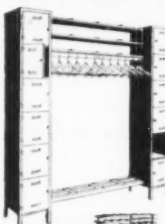
It is evident that the Government policy of supporting agricultural prices will require some revision in the near future. Otherwise, the stocks held by the Government or held under CCC loans will become increasingly large. The crucial question is whether the prices of agricultural products can be allowed to drop to levels which will cause the current output to be consumed without introducing general hesitation in business. Will expected drops in agricultural prices cause consumers and business enterprises to expect drops in other prices? Will this introduce general postponement of buying and another recession beginning a year or two hence?

It ought to be possible to bring about a fairly substantial drop in the prices of farm products without introducing serious hesitation into business in general. Food, and, to a less extent, textiles, are bought for current consumption. Hence, the prospect of lower prices for these commodities is not likely to induce much postponement of buying. Lower food prices, in addition to raising the rate of food consumption per capita up to approximately the level of 1946 (when the average American consumed about 19 per cent more than in pre-war), would release dollars for the purchase of houses, radios, automobiles, television sets, and a large number of other non-agricultural products.

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lower textile prices) would help support the demand for a variety of durable goods at a time when the backlog of demand that grew up during the war has been about met. The drop in agricultural prices would be less likely to introduce general hesitation into business if it is gradual. Consequently, it is desirable that the drop come early. It is unfortunate that the last Congress has required that a number of crops be supported at 90 per cent of parity for another year.

When one observes the course of post-war business in the United States, one can distinguish four more or less separate periods:

1. The year 1946, a period when production was limited by the large number of men still in the armed forces and the large number of recently returned veterans who had not re-entered the labor force; when demand received unusual support from the large investment in inventories (\$6.7 billion for the year) and by substantial net investment abroad (\$4.7 billion for the year).

2. The year 1947, when business received unusually strong support from a high rate of consumer spending and a large increase in net foreign investment. Personal saving as a percentage of disposable income dropped from 7.4 per cent in 1946 to 5.1 per cent in 1947, and net foreign investment increased from \$4.7 billion to \$8.9 billion. Largely because of only a small increase in inventories, gross private investment in 1947 was only \$1.6 billion larger than in 1946. The effect of the enormous demand for goods on prices was limited by a cash surplus of \$6.7 billion for the Federal, local, and State governments combined.

3. The year 1948, characterized by a large rise in the support given to business by gross private investment, by a drop in the urgency of consumer demand, and a large drop in net foreign investment. Gross private investment in 1948 represented 17.1 per cent of the gross national product in comparison with 13.2 per cent in 1947. Net saving as a percentage of disposable income rose from 5.1 per cent in 1947 to 7.7 per cent in 1948. Net foreign investment dropped sharply from \$8.9 billion in 1947 to \$1.9 billion in 1948. In 1948 another large cash surplus in government expenditures (\$7.5 billion for the

Federal, State, and local governments) helped limit the upward pressure on prices.

4. The year 1949—the first post-war year in which a drop in production and employment occurred. Despite a rise in the rate of personal savings, the rate of consumer demand was well sustained. Two principal conditions helped to sustain consumer demand. One was a continued high level of private expenditures on plant, equipment, and housing. Another was the rise in government expenditures and the appearance, for the first time since 1945, of a deficit in the government's cash budget.

Deficit Spending

At the beginning of 1950 the country finds itself with a rate of spending on plant, equipment, and housing which is moderately larger than can be indefinitely maintained without a rise in the normal rate of investment, and with a cash deficit in the Federal, State, and local budgets which is larger than is needed in order to provide the country with the increase in the money supply which will be required in the long-run. These two facts create somewhat of a dilemma. Ordinarily one would count on an increase in the government deficit to cushion a drop in private investment. A drop in private investment seems more likely than not in the near future, but an increase in the government deficit for the purpose of offsetting the drop in private investment would put the government very heavily into the red.

The solution of this dilemma is the most important economic problem confronting the country to-day. There is no single solution to this problem. The problem, however, does require the frank facing of some economic realities which the country did not have to face so long as production and employment were supported by a huge backlog of demands. Solution should be sought along three principal lines:

1. Reform of the tax system to diminish its discouragement to enterprise without diminishing its yield.

2. Development of more private investment opportunities by still larger technological research.

3. Reduction in the rate of corporate and personal saving. The reduction in

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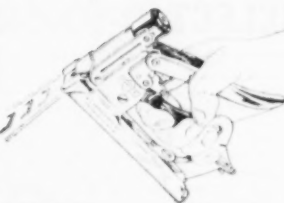
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the rate of corporate saving will occur more or less automatically as business concerns complete the plans for expansion and modernization which they made at the end of the war. The drop in the rate of corporate saving will go far to cushion the drop in private investment expenditures and is likely to be sufficient to offset the decline in private investment. To raise total incomes sufficiently so that present taxes will produce close to a balance in the cash budget, a moderate drop in the present rate of personal saving may be necessary. At any rate, a small drop in the rate of saving would be favorable to production and employment. The achievement of such a reduction depends upon the pricing policies and the marketing skills of business enterprises. Hence, it is primarily the responsibility of business.

PRICES, FAILURES

(Continued from page 18)

money basis, differing from that of the Revolutionary currency only in that the paper money was issued by banks instead of the Government. All of the old evils appeared, over-issue, depreciation, and inequality in value.

No estimates are available as to the number of banks in existence in 1813, but aggregate paper currency in circulation has been estimated at \$66 million and specie at \$28 million or a total of \$94 million. For 1815, it has been estimated that the banks had in circulation somewhere between \$99 million and \$110 million of paper currency and held specie of \$16 million providing aggregate paper currency and specie somewhere between \$115 million and \$126 million. Our total purchasing media had increased between three and four fold within four years!

As the result of this extraordinary, rapid expansion in currency and the concurrent widespread depreciation outside of New England, wholesale prices started their second upward climb. From an index of 104.9 for 1811, wholesale prices rose to an index of 154.6 in 1814, an increase of 47 per

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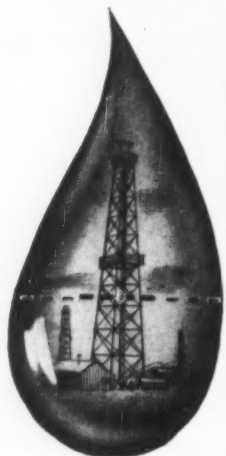
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cent, according to the United States Bureau of Labor Statistics' Wholesale Price Index (1926=100). Here was our second great price inflation.

The result of the election of November 1860, gave a severe shock to public and private credit; Southern banks withdrew substantial amounts of money on deposit in Northern banks; loans were contracted; and by the middle of the month a panic was under way.

More Red Ink—1861

On the day after his inauguration President Lincoln sent to the Senate the nomination of Salmon P. Chase, a lawyer, as Secretary of the Treasury. According to Wesley C. Mitchell in *A History of the Greenbacks*, "It was at a time, then, when the revenue of the Government was insufficient to pay its expenses even on a peace footing, and when distrust and frequent borrowing had much impaired its credit, that Mr. Chase with small experience of financial operations, undertook to raise the means for waging a most expensive war. From April to June the ordinary receipts of the Treasury were \$5,800,000, its expenditures \$23,500,000."

Arrangements were now made with the banking institutions of Boston, New York, and Philadelphia for support. These banks agreed to subscribe to an immediate loan of \$50 million in three-year notes to yield 7½ per cent per annum. The banks in turn were to sell all, or as much as possible, of these notes to private investors, and then repeat the operation twice over to



"WHAT? Oh!"

yield \$150 million to the Treasury.

This operation as a source of funds was supplemented simultaneously by the issuance of paper currency by the Government ranging in denomination from \$5 to less than \$50. Once again we were on the paper money bandwagon. At first, these notes were issued moderately, but by December 31, 1861, \$33.5 million were in circulation.

As month followed month during this difficult period, the banks became more and more embarrassed by the need of specie. The situation finally became so serious, that on December 30, 1861, under the lead of the New York City banks, specie payment was suspended throughout the country. This action was followed by the Federal Government. Gold and silver immediately and quite naturally disappeared from circulation.

More Printing Press Money

The Federal Government, now driven to desperation for funds, brought out additional issues of paper currency. On February 25, 1862, an Act passed Congress after very extensive discussion allowing the issuance of \$150 million of paper currency which became known as "greenbacks," to help defray the mounting expenses of the Civil War. On July 11, 1862, a little more than four months later, an Act was passed allowing a second issue of \$150 million. On January 17, 1863, a third issue of \$100 million was authorized; subsequently increased to \$150 million. By this time opposition to the issuance of paper currency had practically disappeared in Congress. Of the \$450 million authorized by these three acts, \$431 million was outstanding on June 30, 1864.

As a result of these successive issues of paper currency accompanied by enormous issues of short-term Treasury notes which circulated almost as money, and the rapid rise in the circulating notes of local banks, depreciation in our currency naturally occurred for the third time in our history.

A change had taken place in our banking technique. The proceeds of an increasing number of loans were now being credited to deposits, and checks were being drawn against the deposits as the funds were used. In other words, demand deposits of com-



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 ROBERTSON, ROBINSON, McCONNELL & DICK, 372 Bay St., Toronto, 45 6th St., Chatham, Ont.
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BLAIRLOCK BROS., LIMITED, 307 Common St., Montreal. Est. 1876. Customs-Brokers & Forwarders.
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mercial banks were becoming money, or more technically "purchasing media" just as paper currency had been purchasing media over the years.

As we have seen, currency during the Revolutionary War consisted of paper money issued almost entirely by governing bodies. During the War of 1812, currency consisted of paper money issued not by governing bodies, but by banks. During the Civil War, currency consisted of paper money issued both by governing bodies and banks, and a third new medium of exchange composed of demand deposits of commercial banks.

In 1861, there were \$202 million of bank paper currency in circulation, \$123 million of Federal paper money, and deposits of incorporated banks of \$257 million, the total of these three items amounted to \$582 million. By 1865 the aggregate of these items had increased to \$1,193 million. In other words, the aggregate of these items had increased 105 per cent at the very time that paper currency was inexchangeable for specie.

Effect on Prices

Wholesale prices in 1861 stood at an index of 61.3. As a result of this rapid and enormous increase in the purchasing media of the country and the depreciation in currency due both to the increase and to the fact that we had gone off the gold standard, wholesale prices rose to an index of 132.0 in 1865. An increase of 115 per cent in the level of wholesale prices took place over the spread of four years. Here was our third great price inflation.

In 1915, shortly after World War I exploded in Europe, there was in use currency outside of banks of \$1,575 million and demand deposits adjusted of commercial banks of \$9,828 million, or total purchasing media of \$11,403 million. By 1920 currency outside of banks had increased to \$4,105 million, and demand deposits adjusted of all commercial banks to \$19,616 million, providing total purchasing media of \$23,721 million. Here was over 108 per cent rise in purchasing media in five years.

Demand deposits of commercial banks under normal conditions are increased by granting loans and crediting the proceeds of those loans to the deposits of the borrowers. During the abnormal conditions of a war and a

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period of deficit Government financing, deposits are created in still another way. When funds are needed, and securities of the Federal Government cannot be sold in sufficient quantities to insurance companies, savings banks, building and loan associations, organizations, and investing individuals, then they are sold to commercial banks.

Commercial banks in purchasing these securities, either credit the account of the Federal Government or draw a check in payment to the order of the Treasurer of the United States. In the first instance aggregate deposits of the bank are immediately increased. In the second instance, the check of the bank is deposited by the Federal Government in some other banking institution and, when that is done, aggregate deposits of the banking system are increased.

The Fourth Big Inflation

In 1915 the level of wholesale prices with 1926 as the base of 100 stood at 69.5. By 1917 when we entered the War, the index stood at 117.5 and by 1920 at 154.4. The effect of the greatest increase in purchasing media up to that time in our history did not reach its peak until some time after the end of the War as the result of the widespread speculation in commodities which followed the cessation of hostilities. Between 1915 and 1920 the level of wholesale prices rose 122 per cent. It was our fourth great price inflation.

No nation in the history of the world spent money as we did in preparing for and waging World War II. We are still on that spending spree. During the year which ended June 30, 1949, the Federal Government spent \$37,057 million and the budget for the fiscal year of 1950 calls for expenditures of \$41,858 million.

Where did we get the money? By borrowing, and a very substantial portion of that borrowing was fashioned by the creation of demand deposits as commercial banks purchased billions of dollars worth of Federal securities.

Our purchasing media in 1940 consisted of the same items as after World War I, but each item had been blown up tremendously by successive years of heavy Government deficits. The total purchasing media of \$42,270 million was almost twice as large as the pur-

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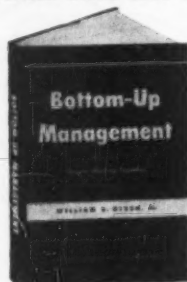
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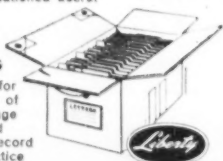
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chasing media of 1920 when we hit the crest of the inflation following World War I.

In 1934, Franklin D. Roosevelt had devalued our currency by reducing the gold content of the dollar, in other words raising the price of gold from \$20.67 to \$35.00 a fine ounce. Roosevelt had unsuccessfully attempted to prime the pump; he had originated the novel idea of compensatory spending; and he claimed that the size of the Federal debt made no difference because we "owed it to ourselves."

The devaluation of our currency by raising the price of gold to \$35.00 a fine ounce meant that overnight we had a greater dollar amount of gold and hence a larger base for expanding deposits. Between 1934 and 1940 investments of commercial banks expanded \$6,700 million.

Purchasing Media at Peak

Between 1940 and 1948 the currency outside of banks increased from \$7,325 million to \$26,079 million, demand deposits adjusted from \$34,945 million to \$85,520 million, and the total purchasing media of the country from \$42,270 million to the unprecedented peak of \$111,599 million. Here was a 164 per cent expansion within eight years.

In 1940 the level of wholesale prices with 1926 as the base of 100 was 78.6. From that point prices went on one of the most sustained and steady rises in our history. For 1945 the index stood at 105.8, as price restrictions were gradually relaxed the index went to 121.1 in 1946, jumped to 152.1 in 1947, and in 1948 reached the highest point in our history since 1779, an index of 164.9. Between 1940 and 1948 wholesale prices expanded 109.8 per cent. Here was our fifth great price inflation.

Inflation in currency, that is, the forcing of additional amounts of money, either currency or demand deposits into use, is in reality a subtle form of devaluation. We found that out by bitter experience during the Revolutionary War, Germany after World War I, and China after World War II.

The price inflations which occurred during the War of 1812, the Civil War, and World War I, were gradually brought into line by the careful watching of all expenditures of the Federal Government which, instead of continu-

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ing to increase its debt, gradually reduced its obligations.

If any single phrase could characterize the policy of President Coolidge during his entire term of office, it would be economy in Government expenditures. Unremitting efforts were constantly exerted to secure retrenchment, to reduce expenses in order to reduce the debt.

It is possible that the inflation of World War II, with its accompanying form of subtle devaluation, may be somewhat more permanent.

The concluding article explaining how these economic patterns affect business will appear in the February issue.

DUN'S REVIEW

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The man who felt as if he'd mailed a million letters!

On the very first Wednesday in October, Mr. Joslyn Junes came home to a crisis, viz... a) His daughter Jean, sixteen, high school senior, and cute, was laid low by domestic science meat loaf the class didn't quite domesticate; and b) her pals, scheduled to help send out class election notices that evening, were also out with *mal de meatloaf*; while c) the class election was Friday!

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So back home he went to the wet towel, and stuck stamps on 312 envelopes—which took even

longer than sealing flaps... When through, Mr. J. felt as if he had just mailed a million letters... "Now I understand," he said, "why the girls in the office want a postage meter! Gonna do something about it tomorrow!"

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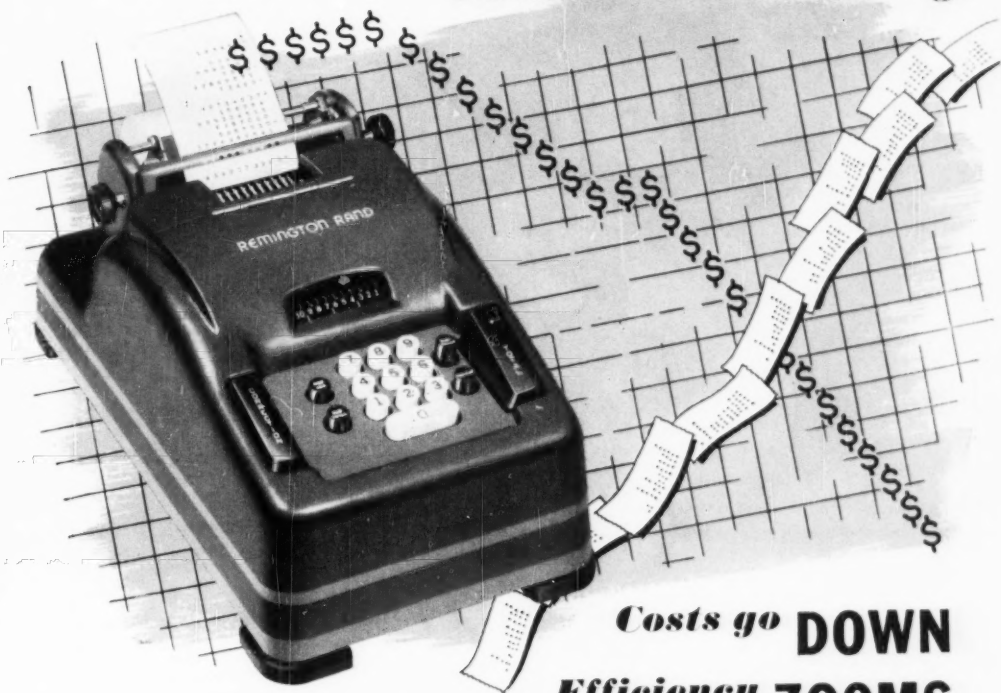


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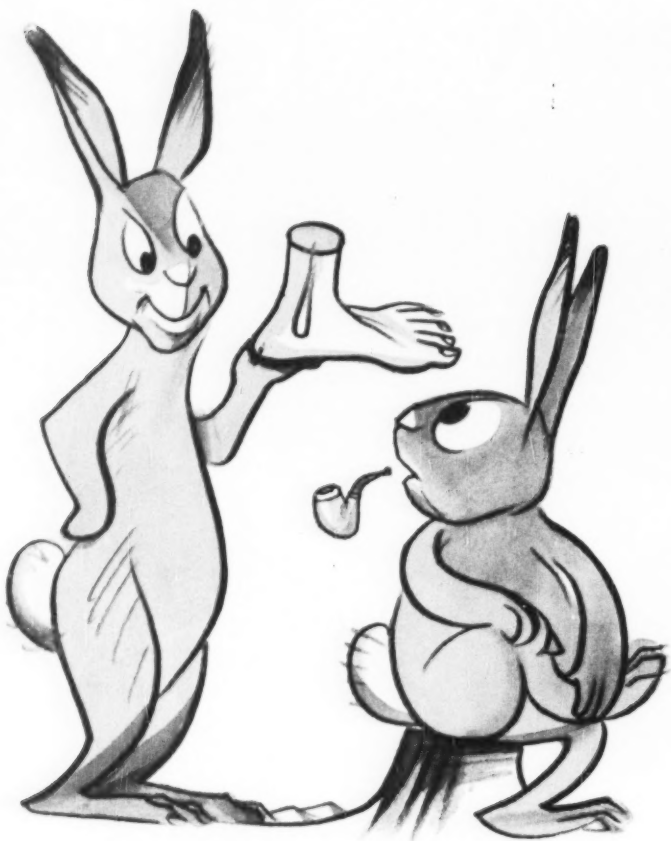
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